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Economic Briefing
To the Penang State Government

Quarter 1 Economic Performance and Forecast for Penang

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The analysis made here are meant to be looked upon in the short term, given very few data points, it will be very difficult to detect long term trends. Instead, what was done here is to compare relative performance over the recent period between Malaysia and Penang.

Penang is more or less on the road to recovery from the recent economic downturn. Data from the Labour Department shows that a total of 4,199 people were retrenched last year compared to 6,108 in 2002. As of March, 304 people have been retrenched in 2004, with 252 of them from the manufacturing sector. In the same period last year, the number of retrenched workers stood at 1,523 people, with 1,253 coming from the manufacturing sector. Although this significant decrease in the number of retrenched workers might not necessarily be reflective of how the economy of Penang stands as a whole but nevertheless, it does reflect that things are looking more promising than last year and the year before.

In terms of the number of approved projects, the total number of projects in January 2004 has dwindled compared to the total number of projects approved in the same period in 2003. The total value of investments have also shrunk by 3.96% from RM239,552,249 to RM230,075,685 . Perhaps the most significant change was in the share of local and foreign investments in the approved projects. The bulk of the share has shifted from a majority of foreign investments in January 2003 to a majority of local investments in the January 2004. The declining amount of FDIs flowing into Penang is certainly a cause for concern but since the data is preliminary for the year, it is too soon to say that the same trend will continue throughout the year. But from a different light, although the value of foreign investments and the overall total value of investments have declined, it is very encouraging to see that the value of local investments has increased by 233% from RM61,164,925 in January 2003 to RM203,855,847 in January 2004.

Table 1: Penang: Number of Approved Projects

	Total Number of Projects	Value Of Investment (RM)	% Local	% Foreign	Y-o-Y Growth in Value of Investment (Jan 03-Jan04)
Jan 2003	17	239,552,249	26%	74%	-3.96%
Jan 2004	14	230,075,685	89%	11%	

Source: MIDA

Penang-Malaysia Relative Performance

The tourism sector in Penang, as indicated by the number of hotel guests was performing badly in recent years due to the economic downturn. Chart 1 & 2 shows an underperformance relative to the rest of the country during the 2001-2002 period and the 1st half of 2003. However as the charts also indicate, along with the economic recovery, the situation has corrected itself by showing better comparison figures relative to the nation.

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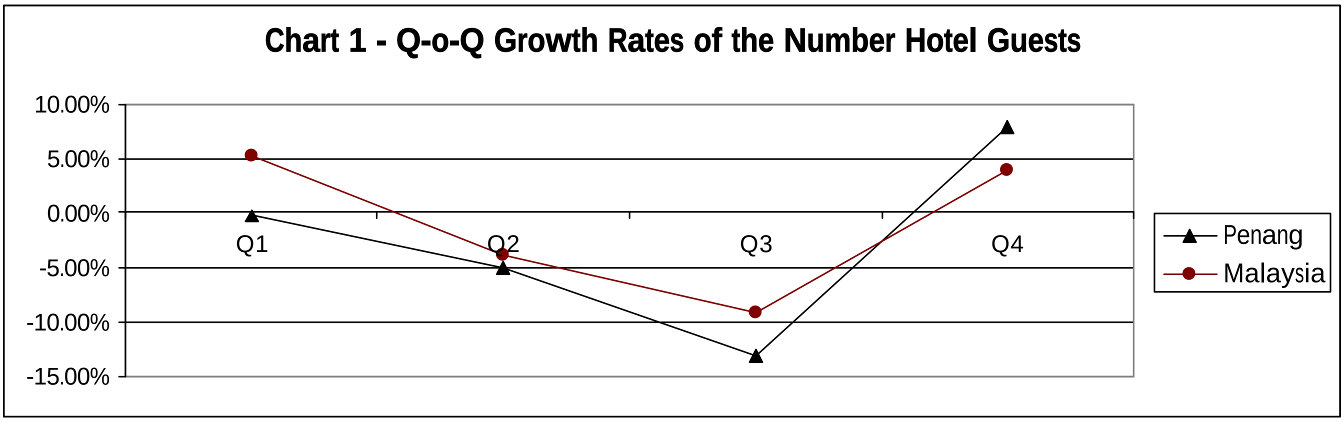
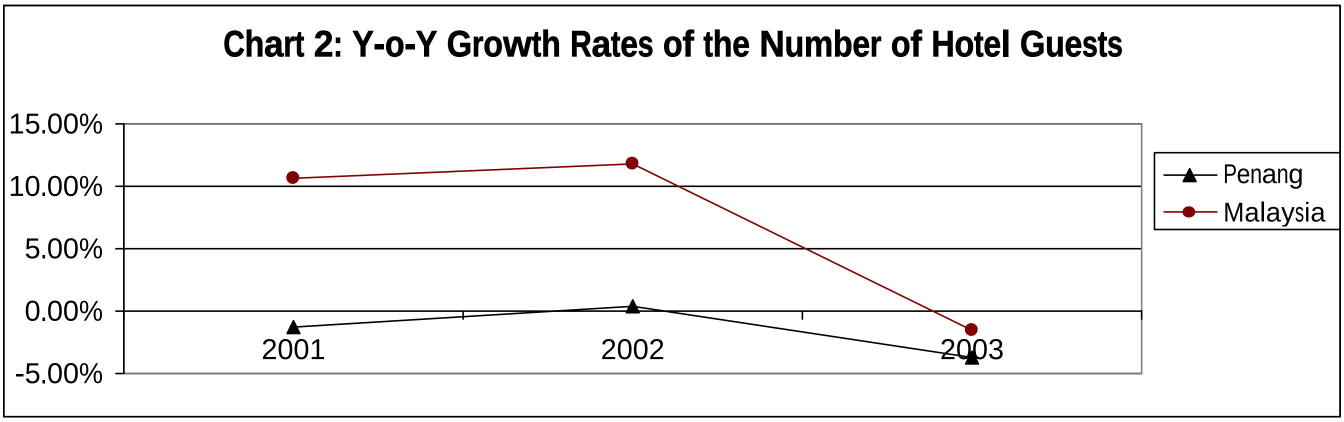
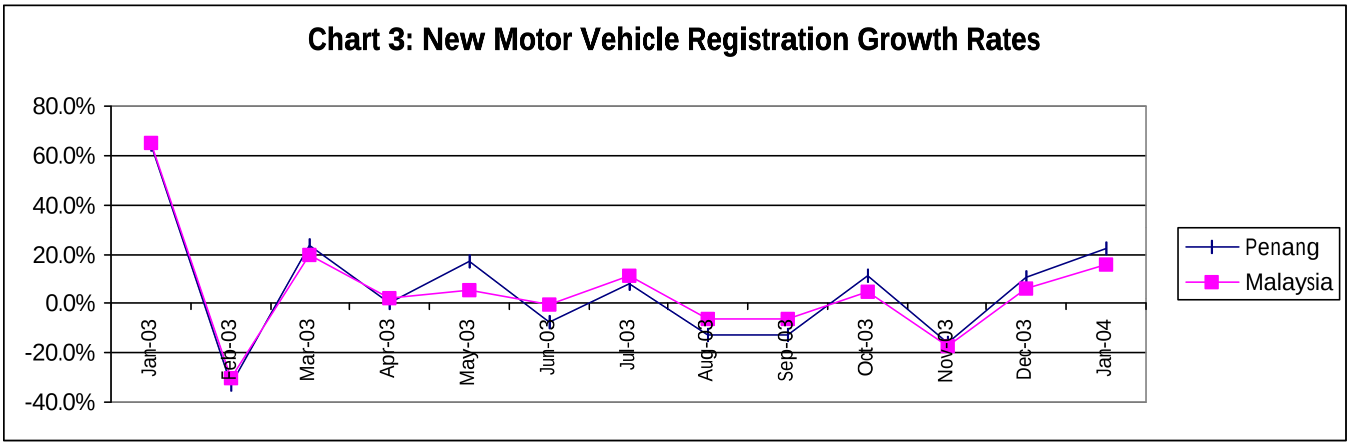


Source: Tourism Malaysia



Source: Tourism Malaysia



Source: Jabatan Pengangkutan Jalan (JPJ), Malaysia

The purchase of vehicles is a popularly used indicator of economic health. During a downturn, consumption patterns are usually not affected because consumers attempt to maintain their lifestyle by temporarily dipping into their savings, anticipating that situation will soon improve. However they will postpone spending on durable goods because these are likely to be more expensive. Thus, as indicated in Chart 3, we could observe cyclical effects of the consumption behaviour of durable goods, in this case represented by vehicle purchase. From the chart, we observed that the economic swings experienced in Penang tend to run in tandem with the rest of the nation. As such, we would anticipate that growth in the economy in Penang will occur at a rate very close to that of the nation.

As would be expected, direct investment into manufacturing projects faced a significant downturn during the recession between 2001-2002 years. Table 2 shows that there was an improvement in 2003 despite the SARS epidemic in the first half of the year. However, direct investments into manufacturing for the whole country underwent a dramatic comeback by improving as much as 62.8% between 2003 and 2002. (Note that such a strong number results from a very low base in the 2002 number). What is important to observe here is that investment into manufacturing projects in Penang is at the time being not as buoyant compared to the nation. Unlike developments in other parts of the country, most of the available industrial land in the state has been taken up while new locations that have been planned have yet to take off.

Table 2: Total Number of Projects Approved and Growth Rate of Value of Investments

Manufacturing Projects Approvals				
		Total Number of Projects	Value Of Investment (RM)	Y-o-Y Growth in Value of Inv
2001	**Penang**	**112**	**3,790,708,239**	-
	Malaysia	839	25,392,353,341	-
2002	**Penang**	**111**	**2,418,108,656**	**-36.2%**
	Malaysia	792	17,876,856,378	-29.6%
2003	**Penang**	**137**	**1,922,986,202**	**-20.5%**
	Malaysia	965	29,096,008,722	62.8%

Source: MIDA

These figures indicate the directions of new industrial projects, for which foreign direct investment play a part. As exhibited in Table 3, the figures on loan disbursement for re-investments by local industries show that there was a y-o-y fall by –4.3% in Penang while the comparative figure for the nation was a positive growth of 4.8%.

The following table shows domestic private investment as reflected by y-o-y change in loan growth during 2003. Across the board, it can be observed that Penang under-performed in virtually all sectors relative to the nation. This indicates a much weaker investment outlook in Penang relative to the nation, suggesting that a less optimistic outlook is likely to occur in Penang in the near future relative to the nation. However, year on year (Y-o-Y) loan growth for December 2003 in Penang was 6.7% compared to the 4.8% figure for Malaysia (MIER 1st Quarter 2004 update pg. 9). Should this continue, the situation in Penang would improve relative to the nation, such that an outlook in Penang that better resembles that of the nation might be possible.

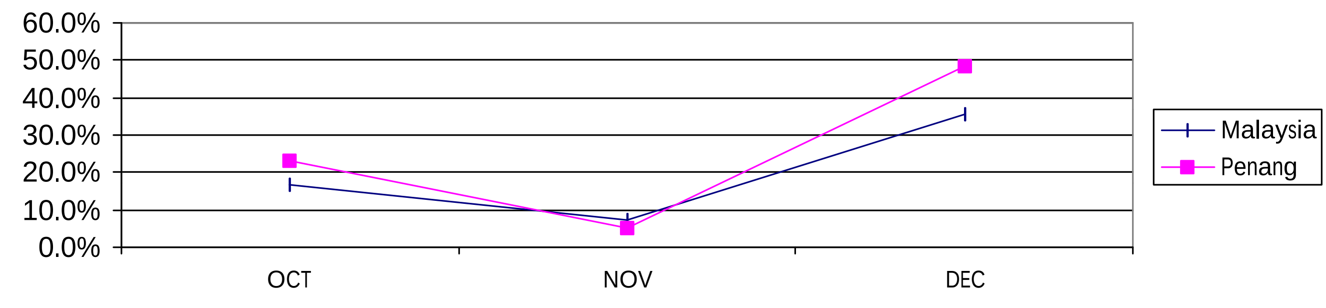
Table 3: Growth Rates of Sectoral Loans, 2003

Sectoral Loans	Y-o-Y Penang	Y-o-Y Malaysia
Loans-purchase of residential property	14.2%	20.0%
Loans-purchase of non-residential property	-1.2%	10.4%
Loans-agri.,hunting,forestry & fishing	13.7%	18.8%
Loans-mining & quarrying	-16.9%	19.2%
Loans-manufacturing	-4.3%	4.8%
Loans-construction	-1.5%	-8.5%
Loans-w'sale,retail, rest. & hotels	4.4%	8.4%
Loans-transport,storage & communication	3.7%	11.6%

Source: Bank Negara Malaysia

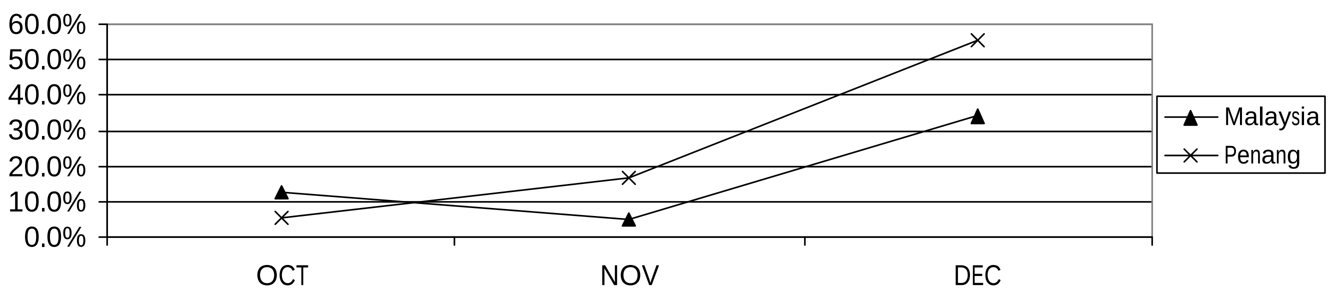
On the trade numbers that compares the relative performance of Penang and Malaysia as shown in the following charts indicate the expected situation due to the heavy concentration on exports which is dominated by the electronics sector. The growth rate of state exports are higher than that of the nation while the imports are even higher than the nation, resulting in a balance of trade position in the state that will be below that of the nation.

Chart 4: Growth Rates in Exports



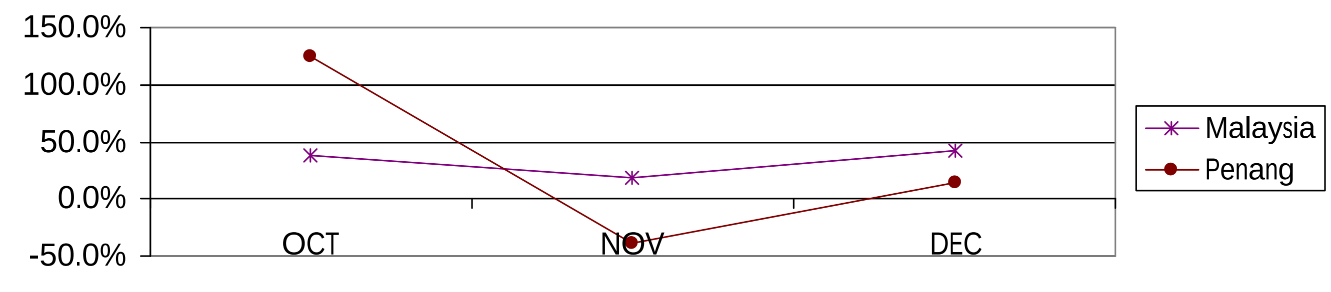
Source: *Department of Statistics, Malaysia*

Chart 5: Growth Rates in Import



Source: *Department of Statistics, Malaysia*

Chart 6: Growth Rates in the Balance of Trade



Source: *Department of Statistics, Malaysia*

Economic Outlook

Table 4: Malaysia: Real GDP Growth by Expenditure

% Growth RGDP	**Q303 5.2**	**Q403 6.4**
Private Consumption	5.4	6.9
Public Consumption	-1.7	11.1
Gross Investment	3.2	3.6
Domestic Demand	3.4	6.7
Exports	4.4	10.9
Imports	1.5	15.9

Source: MIER

Table 5: Malaysia: Real GDP Growth by Sector

% Growth	**Q303**	**Q403**
RGDP	5.2	6.4
Manufacturing	8.3	12.0
Services	4.4	4.5
Agriculture	6.1	2.2
Mining	1.1	3.0
Construction	2.4	2.7

Source: MIER

The economic outlook here is based on MIER's 1st Quarter 2004 update that appeared in mid April 2004. Real GDP growth rate was 5.2% during Q3 of 2003 improving to 6.4% during Q4 2003 for the country as shown in the tables above. For these rates, gross investment growth figures were 3.2% and 3.6% for the same 2 periods. In the economic outlook for the nation, MIER has forcasted an overall GDP growth rate of 6.7% for 2004 and 5.5% for 2005. For these rates, MIER has put private investment figures to grow at 13.7% for 2004 and 11.4% for 2005. One can therefore notice that economic growth is going to be driven by private investments as public investment figures, as indicated in the MIER forecast, would be –4.2% in 2004 and a small 0.9% in 2005.

Based on our analysis above, it is safe to conclude that Penang will to perform relative close to the nation such that the above national growth rates should at least be achievable in Penang. However, our private investment figures based on loan disbursements were well below national rates throughout 2003, even though in December the Penang situation has much improved. Since these investment figures will show out as economic performance figures in the near future, possibly 2004 or 2005, it will be conservative to say that the overall growth in Penang will likely be 1 or 2 percent points below the national rates. Our sectoral forecast for Penang in 2004 and 2005 are shown in table 6. ***§ Dr. Chan Huan Chiang & Tan Yin Hooi***

Table 6: Penang's Gross Regional Product (GRP) by Economic Sectors

Value (RM Million in 1987 Prices)	***2002***	***2003e***	***2004f***	***2005f***
Agriculture, forestry, fishing	277	287	288	299
Mining & Quarrying	196	187	180	174
Manufacturing	7,236	7,533	7,942	8,260
Construction	369	381	384	399
Tertiary	9,423	9,847	10,389	10,819
Overall GRP	17,502	18,235	19,183	19,951
% Share	***2002***	***2003e***	***2004f***	***2005f***
Agriculture, forestry, fishing	1.6%	1.6%	1.5%	1.5%
Mining & Quarrying	1.1%	1.0%	0.9%	0.9%
Manufacturing	41.3%	41.3%	41.4%	41.4%
Construction	2.1%	2.1%	2.0%	2.0%
Tertiary	53.8%	54.0%	54.2%	54.2%
% Growth	***2002***	***2003e***	***2004f***	***2005f***
Agriculture, forestry, fishing	3.6%	3.4%	0.3%	3.8%
Mining & Quarrying	-3.1%	-4.6%	-3.7%	-3.3%
Manufacturing	4.5%	4.1%	5.4%	4.0%
Construction	-8.8%	3.3%	0.8%	3.9%
Tertiary	5.0%	4.5%	5.5%	4.1%
Overall GRP	**4.3%**	**4.2%**	**5.2%**	**4.0%**

Source: SERI's Forecast

Competitiveness Benchmarking[1]

The global competitiveness of most of the major countries in Asia has shown signs of improvement, based on the Growth Competitiveness Index (GCI) rankings derived from the Global Competitiveness Report 2003-2004, published by the World Economic Forum.

The GCI is made up of 3 subcomponents, namely the macroeconomic environment index, the public institution index and the technology index. It has to be noted that the formula used for the 2003 ranking is different from the one used in the 2002 Report as there was a significant change in the methodology used, thus impacting the rankings of the index. While the Global Competitiveness Report 2002-2003 covered only 80 countries, the current 2003 – 2004 report saw an increase in the number of participating countries rise to 102, in which covers a comprehensive 97.8% of the world's total GDP. Based on the 2003 formula and the revised 2002 GCI rankings, Finland remains atop the GCI followed by the United States. With Sweden and Denmark staying at the 3rd and 4th spot respectively, the top 5 positions were relatively unchanged except for Taiwan's rise from 6th place to the 5th while Switzerland slipped from 5th to the 7th place.

Table 1 shows the comparison of the rankings of some selected major Asian countries. As expected, the 4 Tigers of Asia were at the forefront, with Taiwan leading the way at No. 5, just a spot ahead of Singapore and 6 places in front of Japan, both of which came in at number 6 and 11 respectively. Despite the economic uncertainty plaguing the country, Korea has managed to make an impressive leap from 25th place to 18th place in the GCI. Malaysia on the other hand only managed to ascend 1 spot up from 30th place to 29th place. Thailand and Viet Nam also managed to climb up 5 places and 2 places respectively.

Table 1: Growth Competitiveness Index rankings and 2002 comparisons

Country	GCI 2003 Rank		GCI 2002 Rank		Change
	(among 2003 countries)	(among 2002 countries)	(revised)	(original)	(based on 2003 formula)
Taiwan	5	5	6	3	⇑ 1
Singapore	6	6	7	4	⇑ 1
Japan	11	11	16	13	⇑ 5
Korea	18	18	25	21	⇑ 7
Hong Kong	24	22	22	17	⇓ 2
Malaysia	29	27	30	27	⇑ 1
Thailand	32	30	37	31	⇑ 5
China	44	42	38	33	⇓ 6
India	56	53	54	48	⇓ 2
Viet Nam	60	56	62	65	⇑ 2
Philippines	66	62	63	61	⇓ 3
Indonesia	72	66	69	67	⇓ 3

Derived from: Global Competitiveness Report 2003-2004
Note: All comparisons quoted in the article are based on the 2003 formula.

Table 2: Growth Competitiveness Index Subcomponents

Macroeconomic Environment Index		Public Institutions Index		Technology Index	
Country	Rank	Country	Rank	Country	Rank
Singapore	1	Singapore	6	Taiwan	3
Hong Kong	15	Hong Kong	10	Japan	5
Taiwan	18	Taiwan	21	Korea	6
Korea	23	Japan	30	Singapore	12
Japan	24	Malaysia	34	Malaysia	20
China	25	Korea	36	Hong Kong	37
Thailand	26	Thailand	37	Thailand	39
Malaysia	27	China	52	Philippines	56
Viet Nam	45	India	55	India	64
India	52	Viet Nam	61	China	65
Philippines	60	Indonesia	76	Viet Nam	73
Indonesia	64	Philippines	85	Indonesia	78

Derived from: Global Competitiveness Report 2003-2004

Perhaps the most surprising find was the fact that China is one of the 5 major Asian markets to be sliding down the rankings in the GCI. It is currently ranked at No. 44 after plummeting 6 places from its 38th place in 2002 while Hong Kong fell from 22nd to 24th place in the rankings. The other 3 countries, namely Philippines and Indonesia, both lost out 3 places each, with the former dropping from 63rd place to 66th place while the latter slipped from 69th place to 72nd place. India also dropped 2 rankings to 56th place in this year's CGI.

Looking at the GCI Subcomponents in Table 2, Singapore continued to cling to the top spot of the Macroeconomic Environment Index, far ahead of other Asian countries. But according to the Report, although Singapore is far ahead in terms of the macroeconomic environment, its scores have declined in terms of government deficit, inflation rate and interest rate spread. Touted as one of the most corrupt-free countries in the world, it is not surprising to see the island republic again leading the way among the other Asian countries in the Public Institutions Index. It is the only Asian country in the top 5 listing of the Corruption Index. Thailand managed to secure the 26th place to stay 1 spot ahead of Malaysia in terms of the quality of the macroeconomic environment. Malaysia is ranked at an appalling 39th place in the Corruption Index and but managed to secure the 34th place in the overall Public Institutions Ranking, thanks to a slightly higher 28th place ranking in the Contracts and Law Subindex. In terms of technology, the East Asian nations are still the forerunners, but credit must be given to Malaysia for its notable position at the 20th place. According to the Report, Malaysia's jump to the 20th place is the 2nd largest increase in the technology ranks and it registered at a very impressive 2nd place in terms of the perception of government prioritisation of ICT and government success in ICT promotion. The ever-increasing tertiary enrolment rate in the country also plays a major role in helping Malaysia secure the spot among the top 20 runners in the Technology Index.

Table 3: Business Competitiveness Index (BCI)

Country	BCI Ranking	Company operations and strategy ranking	Quality of the national business environment ranking
Singapore	8	12	4
Japan	13	6	20
Taiwan	16	16	16
Hong Kong	19	22	15
Korea	23	19	25
Malaysia	26	26	24
Thailand	31	31	32
India	37	40	36
China	46	42	44
Viet Nam	50	53	48
Indonesia	60	62	61
Philippines	65	48	74

Derived from: Global Competitiveness Report 2003-2004

Table 3 exhibits the rankings of selected Asian countries in the Business Competitiveness Index (BCI). As the efficiency and productivity of the companies and the quality of business environment are important factors in considering the competitiveness a certain country, they make up the subcomponents that heavily influence the rankings of countries on the BCI. Malaysia sits on the 26th place in the overall BCI ranking. It is also placed 26th in the Company Operations and Strategy rankings but fared a little better in the Quality of National Business Environment rankings, putting our country a spot ahead of Korea's 25th place.

China's economy is still growing at a remarkable pace, thanks to the ever-increasing amount of FDIs going pouring into the country. Despite all that, the level of business competitiveness is yet again bogged down with wide concerns about corruption, bureaucratic practices and other types of barriers imposed, which explains its paltry position at No. 46 in the overall BCI rankings.

Singapore is perceived to have a very conducive environment for business but the same cannot be said about the perception of the efficiency of company operations and strategies there, whereby its 12th place in the Company Operations and Strategy ranking is a far cry from its strong 4th position in the Quality of the National Business Environment ranking. This therefore has affected its score in terms of overall business competitiveness, putting the island republic at 8th place in the overall standings of the Business Competitiveness Index. On the contrary, Japan did relatively well in terms of the ranking of company operations and strategies but the country did not fare as well in terms of the quality of their business environment.

In a nutshell, Malaysia is a nation very much blessed in terms of its peaceful and stable socio-political environment and coupled with sound policies and good investment incentives, it makes it very viable for businesses and investments to run smoothly here. But despite all that we have and all that we are, we have yet to fully reach our potential in terms of competitiveness. There is a need to produce value-added products and services for the country to remain competitive in the business world. It is high time that the companies start to acquire and develop new technology and venture into design, engineering and research and development activities instead of just merely concentrating on assembly and testing. Companies have no choice but to improve on their level of productivity, efficiency and effectiveness if they wish to stay in business.

In line with the Prime Minister, Datuk Seri Abdullah Ahmad Badawi's mission to make Malaysia a more transparent nation, new actions taken to curb corruption is hoped to be able to boost public trust and investors' confidence and at the same time be able to push Malaysia's position up the public institution index. Faster and more efficient government services and processes will also boost the business competitiveness of our country.

Though Malaysia may be on the rise when it comes to global rankings, it must not start to be complacent with the mere 1-spot advancement. There are many areas that our country needs to look into before we can put ourselves in the ranks of the fully developed nations. With the fast paced changes and innovations in technology and the ever-changing socio-political climate, we have no choice but to move on with the changing times. ***§ Tan Yin Hooi***

[1] The intelligence of this report is derived from ***The Global Competitiveness Report 2003-2004 by the World Economic Forum***