



Economic Briefing To the Penang State Government

Logistics in the Penang Industrial Zones

Penang currently plays host to 708 manufacturing establishments with 101 located in the Bayan Lepas and Prai Free Industrial Zone (FIZ), 531 in the Industrial Parks and 76 in the Industrial Estates.¹ In an era when rapid movement of goods and supplies has become a key factor of profitability, an efficient transportation system is a precondition for flourishing industrial development. The transport sector must be made effective to support the activities of these manufacturing firms. This article highlights the current operating environment and the issues raised by the users and the operators of the Penang transportation system.

The Current Environment

The logistics environment today entails two categories of players: larger international players such as BaxGlobal, FedEx, DHL; and the domestic players. Domestic players range from Multimodal Transport Operators (MTO) to Logistics Solution Providers to basic transporters who ferry goods from point to point.

The larger international transporters benefit from global networks, larger capital base for the expansion of assets and most importantly, expertise and the ability to embrace and apply information technology concepts in the day-to-day running of the business. Local players however, lack the resources to initiate and imitate this rate of growth, and hence resort to filling in the gaps left by these larger players.

Local providers have created a niche for themselves by emerging as service providers in areas where these MNCs are limited due to licensing restrictions imposed by the government. This leads to MNCs working with domestic operators on an outsourcing or sub-contract basis. Common examples are the haulage and forwarding services, which are almost a totally controlled industry. Foreign players are not granted licenses to operate these services and as such have to engage local providers or form a local partnership. This gives rise to a complex network which currently exists between the larger logistics MNCs and the local providers. Under intense competitive pressures, local providers find themselves competing for projects at diminishing profit margins and sometimes creating price wars in bids to secure lucrative contracts.

Globalization in production networks and the increase in international trade volume have highlighted the need to create a single party to be held responsible and accountable for the entire transport chain. This is the concept of Multimodal Transport.²

¹ Penang Development Corporation, "Annual Survey of the Manufacturing Industries in Penang Development Corporation Industrial Areas: January – December 2003 Survey Report" p. 14.

² The operation of multimodalism proposed by the 1980 Multimodal Convention stipulated that the following criteria must be fulfilled:

- more than one mode of transport must be involved;
- the whole transport, irrespective of the modes of transport involved, must be covered by a single document of transport
- the whole transport, irrespective of the modes of transport involved, must be covered by a single liability regime

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Multimodal Transport Operators (MTO) are responsible for the door-to-door movement of goods and hence ensure reliability as goods get transported across a variety of cultures, languages and business norms. In aiming to provide world-class ancillary service to trade, the present players in the Malaysian transport industry should work towards achieving MTO status. Two Malaysian operators with MTO status who are active in Penang are Kontena Nasional and Transocean.

A vast number of transporters are present in the Penang market, and this is justifiably so, given our manufacturing and industrial base. MTO status or not, competition is stiff, and to gain market share, services provided are now targeted at specific market segments rather than being oriented to transport mode.

The Issues

- **Lack of Total Supply Chain Solution Providers**

Domestic logistics players are slow to adapt to Information Technology (IT), affecting their ability to be efficient total supply chain solution providers. IT is an integral part of logistics in the borderless world of trade. Domestic logistics players undoubtedly agree that investment in IT is necessary to create value-added services and to enable them to become complete supply chain solution providers. However it is the massive cost associated with IT implementation and the financial and capital constraints faced that prevent them from embracing IT wholeheartedly.

Technology has changed the face of logistics with the provision of safe and efficient transport. Warehouse Management Systems (WMS), Barcoding, Closed-Circuit Television (CCTV) monitoring and e-Logistics are some technological innovations which allow tracking of goods movement, monitoring of inventory and connectivity. These are the much desired value-added sought after by customers and in most cases the deciding factor as to which logistics company gets the contract.

Costs of WMS range between RM0.5 to 2 million, whilst the costs of a basic tracking system to track trailers is around RM 200,000 to 300,000. Affordable by the standards of MNCs who have sufficient financial resources and not to mention economies of scale; these cost an arm and a leg to the smaller operators, who cannot justify the returns on these investments.

Electronic Data Interchange (EDI) is a process that allows sending and receiving of business documents electronically. It is intended to reduce turnaround time associated with data processing. Within local companies, EDI is still at its stages of infancy. With the aid of advanced information technology solutions, industry players are able to perform their roles more efficiently by interacting, communicating and sharing information and material flows, especially in an international context.

However, the necessity of having these systems in place have resulted in the smaller operators investing in patchy and basic IT systems to meet minimum requirements. Unable to absorb the cost associated, they are passed on to customers. This has resulted in a huge gap in terms of technology and quality provided in the industry. Larger players are capable of offering more value-added at lower cost than smaller players which offer less of the same value-added at higher costs.

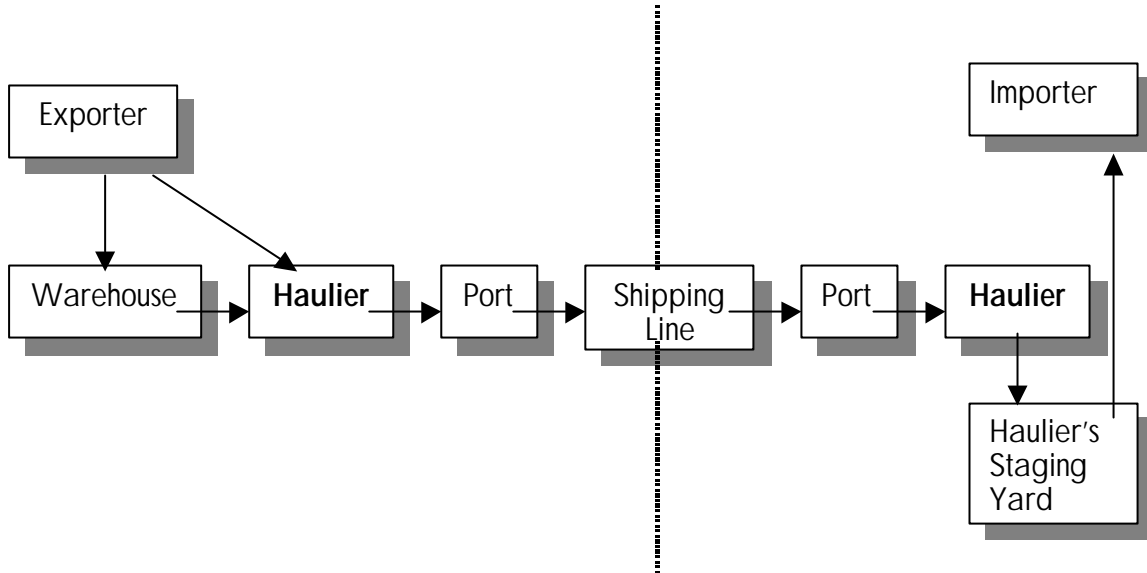
Driven by their own cost cutting measures, customers look for the most cost effective transportation providers. The export nature of these firms throw in another important requirement for local operators: overseas connections. Apart from cost efficiency and value-added services, another important selection criterion is location. It makes sense to have a logistics provider in close proximity to the factory. It saves time, and time is money. Although not a major issue, logistics companies that are located within the Industrial Zones have favour, and unless traffic congestion eases, providers who are further away will be at a disadvantage.

- **The Haulage Industry**

There is increasing demand for hauliers in the industry, especially in Penang where majority of cargo are containerized. At present, the container haulage industry is highly regulated with new licenses hard to come by. There is a call for further opening of this market to promote more efficient and fairer market practices. Main issues raised are the lack of timeliness in delivering or picking up cargo and insufficient equipment to cater for demand during

peak periods.

Chart 1: Overview of Goods Flow and the Role of Hauliers



Source: Adapted from *An Overview of the Ancillary Services in Malaysia*, a paper presented during MIMA Seminar on the Maritime Transport Industry, 14 August 1997.

On the other hand, hauliers are calling for less stringent approval of haulier permits, simplified licensing and inspection procedures to enable optimal utilization and operation of prime movers, lorries and trucks. The present requirement to license one trailer for one prime mover prevents efficient use of capital employed. If a trailer is out of service, or stuck at port of call for loading and unloading, the prime mover sits idle as it cannot be used to carry another trailer. Given the structural background of the state, the development of the haulage industry has much potential for Penang and should not be overlooked.

- **Large liners not calling at Penang Port**

The export base for most intermediate or completed goods coming out of Penang is usually Port Klang. While Penang Port is categorized as a world-class port capable of handling containerized, dry and liquid bulk as well as general cargo, the larger volumes generated at the larger ports of Klang and Tanjung Pelepas naturally attract many main line operators (MLOs). MLOs berth at these ports to take advantage of greater volume, cheaper port and handling charges, dedicated berths and the state of art facilities provided.

Apart from being a premier port of call for the Northern Region of Malaysia, Penang Port (PPSB) plays an important role as a feeder port to Port Klang. Approximately 60% of all incoming cargo are via feeder vessels from Port Klang whilst 65 – 70% of all outgoing cargo are routed via Port Klang. What this means for Penang based firms is increased transit time and a larger inventory build-up. Feeder transport has to be deployed in getting the goods from Penang Port to the main port for export. This results in longer lead-time in getting the goods to their final destinations, lessening the competitiveness in relation to competitors based in Singapore, Hong Kong and Bangkok.

The worldwide rise in the movement of containerized cargoes as a result of industrial growth has seen Malaysian ports register significant development in the area. The content of the containerized cargo determines at which port the ship will berth. Transshipment cargoes head towards Port Klang and the Port of Tanjung Pelepas as they are more centralized in location and have more facilities. Being further up north and smaller in size, Penang Port presently caters to 100% local cargo, meaning that the contents are bound for Penang based companies; or completed or intermediate goods shipped out of Penang based companies.

There is common complaint from consignors and forwarders that Penang Port is plagued by inefficiencies such as unnecessary delays, breakdowns and the lackadaisical attitude of some workers. Competency and efficiency of the shore based support services should not be overlooked especially if they cause bottlenecks along the distribu-

tion network which ultimately culminate in delivery delays and demurrage charges. Moreover, professionalism and expertise contribute towards the creation of value-added services. The trading community is constantly on the look out for the simplest, quickest, cheapest and most reliable way of getting goods on and out of the country. In dealing with ports, they look for certainty, clarity, and timeliness.

In the government's bid to address inefficiencies within government-linked companies, most of the Malaysian ports have been privatized. Privatization injects a profit driven corporate culture, where managers of the firm are answerable to shareholders. Perhaps privatization may be what is needed to re-energize and revitalize port operations.

- **Security of freight trucks**

Land transportation sees the two-way movement of containers between Singapore and Thailand. In Malaysia hijacking is a common problem due to the high value-added goods that the transporters ferry. Trucks carrying valuable cargo such as chemicals, cigarettes, picture tubes, resin and semiconductor chips like microprocessors, hard disk drives and memory chips are highly susceptible to hijacking as these goods are worth millions of dollars when sold illegally in the black market.

Cargo theft or hijack can occur in a warehouse, on the road or even at the ports of call. Crime syndicates are usually the mastermind behind these thefts which have somehow managed to get around the authorities and security procedures in place. In some cases, drivers have been known to be in cahoots with these organized crime rings. The screening process in hiring drivers leaves much to be desired. Shortage of drivers lead to rapid recruitment processes and especially when there is no access to past criminal records, the employer has to take a risk. The severity of this problem is such that in order to reduce the risk of loss associated with cargo thefts, many firms now require their transporters to have surveillance tracking technologies in place before being included in their panel of transporters. Although not a financially viable option for all firms, armored trucks have been deployed in some cases.

Sources in the industry have identified the areas of Senawang and Rawang along the North-South Highway as the favoured hotspots for the syndicates to strike. In Penang, cargo theft occurs mostly in warehouses and on trucks moving in or out of the airport.

Although insurable if foul play is ruled out, the cost associated with cargo theft goes beyond the insured amount. Insurance premiums rise with the frequency of cargo hijacks and because the transporters alone cannot absorb this cost, it is inevitably passed on to customers. Not only does this lessen competitiveness, these thefts have dire consequences of delayed goods shipment and delivery and worst of all, a loss in confidence by the customers.

- **Traffic Congestion**

Many manufacturing firms highlight the increasing level of traffic congestion as their primary transportation issue. With the number of new registered vehicles in Penang constantly on the rise, land transport has become a slow and burdensome process.

The main arteries linking these firms to Penang's air and sea ports are Jalan Sultan Azlan Shah and the Penang Bridge respectively. The congestion on Jalan Sultan Azlan Shah is worsened by the illegal parking of personal and commercial vehicles by the roadside, thus narrowing the roads and on certain occasions making it impassable to cargo-laden truck and lorries. This situation is further aggravated during the before and after office hour rush, resulting in inbound and outbound cargo delivery slowdown.

At present, Penang Bridge accommodates over 60,000 vehicles a day as compared to 40,000 vehicles a day when it first opened.³ A bad accident on the bridge can bring traffic to a complete halt until it is cleared. The heavy traffic volume may sometimes spill onto the Coastal Highway. Trucks caught in traffic face security issues as they become easy targets for hijack or they may miss the flight schedule, thereby affecting the efficiency of air cargo systems.

With the establishment of the Prai Industrial Zone, and the increasing number of subcontractors (to the MNCs

³ Toll Concessionaire, Penang Bridge Sdn Bhd

located in Penang island) based in Kulim and Sungai Petani, congestions on the Penang Bridge will have severe impact on the manufacturer and the cycle time of sea freight delivery to the seaport. The frequency of round-trips lessens, decreasing income for transporters and creates a bottleneck for manufacturing productions.

- **Logistics Infrastructure**

Under the 8th Malaysia Plan (2000-2005), the government aims to provide RM1.5 billion of direct funding and another RM4 billion of indirect funding to assist in the development of our ports and associated logistics chain. This large-scale investment hopes to improve the productivity and capacity of Malaysian ports and its related services and reflects the growing importance of this sector.

Apportionment for Penang is RM250 million to construct a centralized tankage terminal at North Butterworth for the handling, storage and distribution of petroleum and petrochemical products for the northern region of Peninsula Malaysia. Parties concerned are currently negotiating the details of the proposal. When finalized, the project should effectively remove "dangerous cargo" from the close proximity of passengers and enable further utilization of their present premises. On the other hand, the petrochemical firms will benefit from better facilities and infrastructure provided at the centralized tankage terminal.

Another port project relevant to Penang is the extension of the berthing pier at the North Butterworth Container Terminal (NBCT). This project is currently underway, where the existing berthing pier is being extended by an additional 200 meters, from 700 meters to 900 meters. This extension will enable NBCT to handle 1,000,000 TEUs per year as compared to 700,000 TEUs per year prior to extension. A container yard is presently being built on a reclaimed area of approximately 25 hectares at the NBCT.

The lack of designated parking space or parking depots has resulted in massive congestions at customs clearing areas. Private and commercial transportation converge at areas such as the roads leading up to and including the airport, causing traffic bottlenecks. In narrowed lanes due to illegal parking on road shoulders, smaller passenger vehicles, weaving motorcycles, trucks and lorries compete for space to beat deadlines, thus creating complete chaos during peak hours.

Industrial estates need sufficient infrastructure to support continuous growth. Current roads leading to these estates need to be widened and maintained, with strict traffic law enforcement to address the problems experienced by the employees, clients and investors. These problems have severe economic impact as there are losses in productive hours and hence profits as operators are unable to be at their workstations on time; higher staff turnover rates and recruitment problems due to lower quality of life experienced by operators who have to leave their homes earlier and arrive back home later due to the congestion; and frustrated transporters who are grid locked in the industrial areas during shift changes.

Conclusion

Given its strategic location and its various designated industrial and free trade zones, there is potential for Penang to become a regional logistics hub. The Bayan Baru area of Penang has the highest concentration of electronics manufacturing industries in Malaysia. The entwining of trade and transport signals that much can be done in Penang to facilitate the improvement of the logistics system.

This sector faces inefficiencies and the lack of transparency on services provided by the private sector and the relevant government agencies. There are inconsistencies in the enforcement of laws and regulations and the lack of coordination and cooperation among government agencies and transport operators. Strengthening of the regulatory framework and functions in terms of economic, technical and legal capabilities should propel this sector towards global competition.

In terms of infrastructure, improvement in the public transportation system will reduce road congestions and significantly cut down the number of small passenger cars and motorcycles. Plans for a monorail system in Penang have yet to be finalized, and public buses are proving to be more of a traffic hindrance than help without proper integration and management. The present strategy of the Penang State Government is the creation of a comprehensive statewide transportation network by 2010, blending an expanded road system with efficient public transportation, in addition to new traffic policies. Construction of Penang's first two expressways designed to draw traffic away from local roads

are currently in progress. Simultaneously road-widening projects are underway in congested areas such as Bayan Lepas. When complete, the adoption of road-pricing policies should encourage public transport usage.

Allocated parking depots will prevent illegal parking of lorries and trucks. Smaller transporters who do not own parking depots resort to parking their lorries and prime movers on any available space. A positive sign of infrastructure upgrade is the berth extension in the NBCT which will address congestion issues due to space constraints.

Increased investments in infrastructure however, will not reap optimal benefits unless supported by the people. This is the other aspect of "inefficiency" – the human factor, as a by-product of organizational inefficiency. Organizations and their people, tend to become complacent in a monopolistic environment. Perhaps privatization or the implementation of benchmarking procedures together with Key Performance Indicators (KPI) will increase productivity within organizations.

Local players are overshadowed by the larger international logistics providers in terms of cost effectiveness, IT systems and international networks. As such many local players end up as subcontractors for these larger players. Joint ventures between these companies will result in a win-win situation, with local companies holding licenses to restricted operations such as container haulage and the international firms holding the key to global connections and IT expertise. The intervention of the state government through a presiding organization to match make or bring these companies together will greatly benefit the industry and most importantly close the gap between these two categories of companies.

In taking the lead and bringing together all the players in this industry, the state government should establish a forum whereby the inefficiencies of this sector such as custom delays, road problems and traffic congestion can be highlighted and addressed.

It is clear that the logistics industry has much to gain from further improvement. Having an efficient logistics system provides a dynamic operating environment and promotes Penang as the industrial hub of choice. Moreover, the impending AFTA has Penang at the very core and an efficient logistics system may lead to the development of another multimillion-dollar industry in the state. *§ Poh Heem Heem*

Inflationary Pressures and the Direction that the Economy Might Take in Response

Introduction

As expected, after many months into the recovery, both at home and worldwide, there would be the usual consolidation of the numbers, such as the softening of Malaysia's industrial production index (IPI) and indications of rising prices bringing about concern over the possibility of inflation. The year-on-year IPI growth, three months ago, was in the double digits and consumer prices have since crept up. Meanwhile, trade balance and the current account continue to be on the positive side amidst a strong foreign reserve position. This suggests the possibility of saturation in the country's production capacity in which domestic investments do not appear to run in tandem with rising demand. Capacity begins to fall behind and the economy overheats to fuel inflation. The excess in the resource gap (i.e., national savings minus domestic investments) shows up dollar for dollar as the current account surplus, which when not invested overseas as Malaysia's foreign direct investments abroad, tends to end up in the form of less risky but low yield securities - much of it adding to the nation's foreign reserves.

How bad the current situation actually is is, of course, academic. However, compared to inflation episodes experienced in the past, Malaysia's economy has become fundamentally more robust since. The country's capital markets have become much more developed and corporate governance policies instituted by the Securities Commission have imposed conditions that require the corporate sector to be more disciplined than ever before. Theory teaches us that excess liquidity brought about by money supply rising too quickly will show up in the bond market thus driving prices down and accordingly, bond yields to go up. This would put upward pressures on interest rates across the other segments of the money market, which means that the low interest rate regime that Bank Negara has so successfully maintained for so long through the country's economic recovery will become increasingly more tricky to pursue. Rising interest rates in Malaysia will dampen the economy but allow pressures to ease. Of course it would be better to push for more domestic investments that would expand productive capacity but mysteriously, this has not come about. As a re-

sult, the current account surplus continues to hit high positive numbers and the foreign reserves to surge into peculiarly high levels.

Economic indicators but what are these signaling?

This year, Malaysia's economy started its second quarter in March on an upbeat. The economy had been on a bullish pace through much of 2003 and at that time there were no indications in sight that the up-trend in the business cycle was going to alter course. The GDP grew 5.2% in 2003, i.e., between half to one percentage point, above most forecasts. The 2003 last quarter growth was up 6.4% from the previous year and during the first quarter of 2004, the economy was beyond expectations by growing 7.6% year-on-year. Exports of goods and services during last year's quarter 4, was up 10.9%. By February, exports have gone up 16.9% year-on-year. Retail sales was 8.4% higher than the last quarter of 2002. Investments edged up 3.6% year-on-year marginally better than during the third quarter. Meanwhile, the RM2.1b. worth of foreign direct investments was five times the size from the previous year. Interest rates remained low and thus attractive to investors. The industrial production index in March 2004 went up to 223.5 or 13% higher from the year before. Most economists said at the beginning of March this year that the economy will continue to expand following strong domestic and external demand given the spate of global expansion. The projected GDP growth for this year of 6% to 6.5% should hence be fairly easy to achieve.

So what has changed in the economy over the past few months? Since June, inflation has begun to creep upwards. The Department of Statistics announced during the middle of July that the consumer price index (CPI) has increased by 1.3% in June and 1.2% in May on an annual basis and averaging an upward rise of 1% for the first half of 2004. *The Edge* reports that during the second half of 2004, the CPI is expected to average a 1.6% increase and moving up to an average of 2% in 2005 based on projections made by CIMB Securities. Meanwhile, the Department of Statistics also announced that the industrial production index (IPI) has also begun to taper off its growth after rising 12.8% year-on-year in May compared to 14.5% in April.

On their own, without considering changes from more recent months, inflation remains low and the IPI still buoyant. However, political uncertainties in the Middle East have been keeping oil prices near the US\$40 per barrel mark. During the Gulf war in 1991, oil prices were in the US\$30 mark. On June 5, the US\$42.50 barrel price was a 21-year record. In the past, the government varies the subsidies in response to changing price of oil over the course of the year, keeping prices at the pump in Malaysia unchanged. This policy has been rescinded during the past few years in favour of one that gradually reduces the petroleum subsidy. As a result, petrol prices have gone up 10 sen in 2001 another 3 sen in 2002, a further 3 sen in 2003 and another 2 sen on May 1 2004. Petrol makes up a 5.1% weight-age in the computation of the CPI.

The issue is: a better part of the past decade has gone by when little was heard of the economy overheating, an issue, that came under much debate during the boom years of the early 90's. So far, technological progress has allowed potential GDP to generally outpace actual, demand driven, GDP. The potential GDP is the trend rate. Being a function of labour inputs and productivity rates, it varies little over time unlike actual GDP, which readily responds more turbulently to cyclical swings. With the output gap, i.e., the difference between potential and actual, on the positive side inflation is kept low.

Once actual GDP rises past the potential GDP mark, overheating begins to manifest itself in the form of inflation which, to cool off would require interests rates to climb. The downside of this is a slowdown in growth as business cuts investment levels due to rising cost of funds and cutting employment levels lead to less spending.

What would the policy response be?

This time round, the policy response is not as clear-cut. If the inflationary trend currently observed is also due to the high price of oil, then there is reason to believe that more difficult conditions to do business is going to cause the economy to slow down. In this case, the policy response will be to cut interest rates to ease business conditions. On the other hand, curbing the inflationary trend calls for policy to push interest rates up instead of down. The policy choice of whether up or down depends on where the economy is in the output gap, a position, which is unfortunately difficult to tell exactly. Some, like J Bradford Delong, who wrote in *The Edge* (May 3, 04) believes that the output gap is "relatively wide" implying that interest rates has to stay low for awhile yet. However, elsewhere, fueled by interest rates at a very dismal level unseen for decades, the recent spurt of actual GDP growth rates across many parts of the globe suggests that the output gap is fast diminishing (*The Economist*, June 19, 04).

Effects by the U.S. economy

The rise in the Federal fund target rate on June 30 by half a point to 1.5% reverses the fall that began at 6.5% during the turn of the century. By the end of 2001 the rate was already down below the 2% mark from where it took a slow and painful route down hitting 1% by about this time a year ago and where, after 13 times of downward revisions, the rate stayed till last month's upward revision. There was little market reaction to the revision, even though many expect rates close to 4% by the end of 2005 given the 3%-4% inflation rate. It is apparent that the Federal Reserve is treading cautiously hoping to curb inflation and yet not losing the economy to another sudden downturn. Already, non-farm job creation in June had declined from the previous month and orders for durable goods, including car sales had fallen over a couple of consecutive months.

The interest in the American economy to the East is the direction in which capital flows might take. From a foreign investment perspective, the current run of the low interest rate regime meant an inflow of investments funds into Asia. Andy Xie of Morgan Stanley Hong Kong reports in *The Edge* (June 14, 04) that when the Fed rate rises, much of the capital inflows into Asia will likely withdraw and force Asian interest rates to rise as a response. However, this is only part of the story. The U.S. economy is no longer what it used to be. Except for brief periods during the 80's recession, the U.S. had, for the past half-century, experienced a current account surplus. Since 2001, this is no longer true when it started out its current account deficit of 3.2% of GDP that has since widen further to the current deficit of 6% of GDP. In other words, for a few years now, the issue is not capital flows out of U.S. but instead capital inflows into the U.S. in order to fund the deficit on the current account.

Ignoring relatively insignificant amounts on transfers, the current account is the sum of the trade and services balance plus net factor payments. The U.S. has currently a serious trade deficit but its net factor payments are positive. During the good years, the positive net factor payments are sufficient to offset the trade deficit to keep current account on the positive side. But with current account now negative, it means that money from abroad would be required so that balance of payments is achieved. Since most Eastern economies would not be able, from a technological standpoint, to directly invest in the U.S. economy, capital inflows into the U.S. usually end up in the form of U.S. treasuries. The U.S. net liability to the rest of the world now stands at a hefty 24% of GDP. However, given that the yield from U.S. treasuries is only a modest few percent, this meant that factor payment outflows from this, will be less than 1% of GDP, which is far below the factor returns inflows from U.S. direct investments overseas.

So the big question is how serious is American inflation? So long as the American economy continues to improve, Eastern exports to the world's still largest economy will not be dampened. But past inflationary episodes still haunts the minds of Americans and sentiments persist that anticipate more aggressive anti-inflationary measures on the part of the Fed suggesting that economic growth is about to slow as a result. Should this occur will the trade deficit gap, be forced to close in order to address the balance of payment position? This would imply that Eastern trade surplus and their own economic vitality be affected in turn. If not, the implication will be that the East will have to continue pumping more money into American treasury debt instruments to cover the balance of payment regardless of the size of the deficit.

Conclusion

The next few months will tell which scenario will come to past. So far signs remain positive as Japan has bought \$138 billion worth of dollars that help prevent the dollar from sliding and hence keep purchasing power fairly intact. In fact, the dollar has risen 6% against the Euro since the beginning of the year. But it remains hard to understand what is actually going on. Does keeping purchasing power intact mean that the economy will not slide into recession or does it mean that inflationary tendencies are lurking in the background. Does interest rate have to go up or down? We have to watch and wait. Nevertheless it is clear, the upward run is winding down and more tricky times are definitely ahead. *§ Dr. Chan Huan Chiang*