SOCIO ECONOMIC &
ENVIRONMENTAL RESEARCH
INSTITUTE

November 2004
Volume 6, Issue 11

Economic Briefing
To the Penang State Government

Health Tourism in Penang

The declining state of Penang's tourism sector has been much talked about lately in the media. Many reasons have been offered: from deteriorating conditions of our beaches and the lack of maintenance of existing tourist attractions - the oft quoted one being the lack of new tourism products. The question is what constitutes new tourism products for Penang Island? Identifying and creating new tourism products that do not complement the island's natural beauty and charm would simply result in a waste of taxpayer's money and mammoth retail and commercial buildings erected around the state would evolve into white elephants in the very near future.

Perhaps the key is to identify niches within the broader tourism sector which hold potential for the state such as health tourism, eco-tourism, agro-tourism and adventure-tourism. This is how Thailand, a country that otherwise shares similar natural and geographic resources, has managed to differentiate itself from us.

Tourism has always been a major source of income for Malaysia with approximately 50% of national GDP coming from the services sector. The table below highlights the total tourist arrivals and their contribution to Malaysia's foreign exchange earnings. For 2004, the Ministry of Tourism expects foreign exchange earnings to hit an all time high of RM 30 billion.[1]

Table 1: Malaysia -Tourist Arrivals and Receipts

	1999	2002	2003
Tourist Arrivals	7.93 million	13.29 million	10.6 million
Tourist Receipts	12.3 billion	25.8 billion	21.3 billion

Source: Tourism Malaysia

This article aims to explore the potential of the health tourism industry in Malaysia, with a focus on Penang. Defined as travel to improve one's health, such as a visit to a health resort or a weight loss camp, it is also the practice of travelling to another country or state to benefit from free or less expensive health care, be it surgeries, non-invasive procedures or the treatments that are not covered under insurance. In Malaysia,

- The foreign patient market was worth about RM 90 million in 2002
- Over the last three years, foreign patient admissions into Malaysian healthcare facilities has grown by about 30%
- A large percentage of foreign patients are from ASEAN countries, particularly, Indonesia, Brunei, Thailand and Singapore
- Indonesian patients account for the largest majority; 63.48% of foreign patients in 2001 and 72.47% of total foreign patients in 2003.
- Cardiology, cardiothoracic surgery and general surgery services are the highest in demand amongst foreign patients
- Overall foreign patient satisfaction level is good.[2]

[1] Speech by YB Dato' Dr. Chua Soi Lek, Minister of Health Malaysia, at the signing ceremony between Country Heights Health Tourism Sdn. Bhd. & Ken-Air Leisure Sdn. Bhd., Palace of the Golden Horses Hotel, Seri Kembangan, 19 July 2004. http://www.moh.gov.my/speech/menteri/190704.htm
[2] Ibid.

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The Ministry of Health together with the Ministry of Tourism estimates the foreign patient market to be worth about RM 154 million this year with health tourism expected to rake in about RM 2 billion a year in national earnings by 2010.[3] At present, Kuala Lumpur, Selangor, Penang and Melaka constitute the major medical hubs of the country. In the bid to maximise and capture the full potential of this industry, the government has appointed 35 private hospitals Malaysia-wide to be promoted as key players of the health tourism industry. Of these 35 hospitals, 15 are in the Kuala Lumpur / Selangor area, 8 are in Penang and 2 in Melaka.

Table 2: List of Appointed Health Tourism Hospitals in KL/Selangor, Penang & Melaka

KUALA LUMPUR / SELANGOR	PENANG	MELAKA
Ampang Puteri Specialist Hospital	Gleneagles Medical Centre	Mahkota Medical Centre
Assunta Hospital	Hospital Pantai Mutiara	Pantai Ayer Keroh
Damansara Specialist Hospital	Island Hospital	
Damansara Women's Specialist Centre	Lam Wah Ee Hospital	
Gleneagles Intan Medical Centre	Loh Guan Lye Specialist Centre	
National Heart Institute	Penang Adventist Hospital	
Pantai Medical Centre	Mount Miriam Hospital	
Selangor Medical Centre	Metro Specialist Hospital	
Sentosa Medical Centre		
Subang Jaya Medical Centre		
Sunway Medical Centre		
Tung Shin Hospital		
Tun Hussein Onn National Eye Hospital		
Tawakal Hospital		
Taman Desa Medical Centre		

Source: Association of Private Hospitals Malaysia (APHM)

A Brief History of Health Tourism in Penang

The renovated and modern facades of some of the hospitals in Penang today belie the interesting histories behind these establishments. Many of these hospitals were founded years ago by missionaries and local philanthropists as charitable organisations seeking to help local Penangites as they were denied medical treatment by the ruling British. Doctors sought little financial compensation and served the ailing public out of goodwill and the intention to heal.

Today, better living standards, higher expectations, technology and the easy access to education have changed the medical landscape. There has been a constant, organised expansion in facilities and services offered to patients in both the not-for profit hospitals like The Penang Adventist Hospital, Hospital Lam Wah Ee and Mount Miriam Hospital and the relatively younger private hospitals such as Gleneagles Medical Centre, Loh Guan Lye Specialists Centre, Hospital Pantai Mutiara and Island Hospital.

Private hospitals in Penang mushroomed in the late 1970's after the successful setting up of Penang Medical Centre (now known as The Gleneagles Medical Centre). Being the first hospital to offer private healthcare in Malaysia, it was wandering into uncharted territories at that time, facing the uncertainty of whether Penangites were willing to pay out of pocket for their medical expenses. The overwhelming response set the ball rolling for other medical establishments in the state.

[3] Speech by YB Dato' Dr. Chua Soi Lek, Minister of Health Malaysia, at the signing ceremony between Country Heights Health Tourism Sdn. Bhd. & Ken-Air Leisure Sdn. Bhd., Palace of the Golden Horses Hotel, Seri Kembangan, 19 July 2004. http://www.moh.gov.my/speech/menteri/190704.htm

The Current Situation

Today, the Penang State Government is committed to establish Penang as a centre of Medical Excellence, with high standards of healthcare targeting patients from the Northern Malaysian region and also from the Indonesia – Malaysia –Thailand (IMT) growth triangle. Services most sought after by foreign patients in Penang include General Surgery; Cardiovascular, Orthopaedic, Eye and Ob-Gyn related services; and General Medical Screening.

Table 2 lists the major players in the Penang health tourism industry. These hospitals have reported a surge in foreign patient arrivals over the last few years, especially since the Asian economic crisis. A breakdown of foreign patient arrivals reveals Indonesians as our major market, followed by the Japanese. Indonesian patients who seek treatment in Penang hail mainly from the island of Sumatra, coming from towns like Medan, Acheh and Padang.

Table 3: Countries Providing the Most Number of Patients

1.	Indonesia
2.	Japan (expatriate and tourist market)
3.	Australia (expatriate market)

In the year 2003 alone, Indonesian patients accounted for approximately 20 to 30% of total outpatients in one of the leading hospitals in Penang, contributing to approximately 10-20% of revenue generated per month. Thus the Indonesian market holds huge potential for us, not only in terms of health tourism but also in terms of the economic spill-overs generated by these visiting patients such as an increase in hotel occupancy rates, the increase in tourist arrivals and the foreign tourist dollars spent.

Hospitals in Penang say, however, that the Indonesian market is not fully tapped. Most hospitals have their eye on Jakarta with its population of 17 million. Jakarta based patients have always favoured Singapore, due to proximity and its reputation for quality. However, escalating costs of medical treatment in Singapore due to depreciation of the Indonesian rupiah in relation to the Singapore dollar have caused them to look elsewhere for alternatives. One such alternative is Kuala Lumpur and Selangor. The lack of direct flights servicing the Penang – Jakarta route diverts the Jakarta based patients towards KL and Selangor.

The Indochina region is also an often-overlooked region in terms of health tourism potential. The wide income inequality in the region often leaves the rich unsatisfied with the level of basic healthcare provided in their countries. Many affluent Indo-Chinese from Laos, Cambodia and Vietnam seek treatment in Bangkok. In 2003, Bangkok recorded a total of approximately 37,000 Indo-Chinese patients compared to a negligible number in 2002.[4]

The Penang Private Healthcare Sector

Private hospitals in Penang currently benefit from the mostly local and experienced specialists who came from the golden era of Penang education, when Penang was known for producing top scholars in the nation. Coupled with medicine as it is today, with cutting-edge technological tools to aid and support medical diagnosis and treatment, the medical profession and personnel in Penang are highly respected and trusted. Moreover, close cultural and linguistic similarities allow these doctors to communicate easily with Indonesian patients. This is a major “draw factor” for the Indonesian patients.

In terms of technology, Penang hospitals are on par with their regional competitors. Most are equipped with ultrasound, CT scans and MRI machines and the ability to perform cutting-edge medical techniques such as the latest non-invasive medical procedures. The Penang Adventist Hospital (PAH), a not-for-profit centre has recently added to its Heart and Vascular Centre’s impressive range of medical equipment a 64-slice CT Scan machine, costing approximately RM 7.2million. Moreover, its association with the Linda Loma University Hospital & Medical Centre in California - world renowned for open heart surgery and organ transplants on adults and children allows PAH the ability to call on its international resources when necessary, and provides an avenue for continuous skills transfer between its medical personnel.

4 Pusaksrikit T.,& Padkuntod P.,, “***Ticket To Health***”, The Nation Thailand, p1A . 13 June 2004

The Mount Miriam Hospital is one of the largest cancer centres in Malaysia, fully equipped with the latest planning systems, simulators and radiotherapy equipment necessary to combat cancer today. It is the only one in Penang to have 3 Linear Accelerators (LA's) used to administer radiotherapy on cancer patients. These LA 's are state-of-the art and cost approximately RM 5.5 to 6 million each. Being the only hospital in Penang to specialise in cancer treatments ranging from high dose brachytherapy to chemotherapy, Mount Miriam Hospital works closely with both the General Hospital and private hospitals in providing radiotherapy treatment to cancer stricken patients.

The recent plan to acquire Island Hospital by the Singapore-based Raffles Medical Group signify the huge growth potential of this leading private hospital in Penang. In buying Island Hospital, the Raffles Medical group gains an immediate foothold in Malaysia, as Island Hospital is a profitable operation with an established market share. Dr Loo Choon Yong, Executive Chairman, Raffles Medical Group, said, "We are buying something with a view to grow even more. And indeed there are possibilities of acquisition of some land nearby so that we can expand the physical facilities. We have confidence in Malaysia. That's why we are making this investment. We have confidence in Penang and we want to make greater investment."[5] This leading private hospital has garnered much foreign and local interest in terms of its expansion capabilities.

The Strategies Undertaken

The initiatives to promote health tourism are clearly visible in Malaysia, from the policy makers down to hospital administrators. At present, various government agencies such as MATTA, Tourism Malaysia, MATRADE, the Ministry of Health, the Association of Private Hospitals Malaysia and respective state governments are promoting health tourism in some form or other. There have been impressive efforts to market health tourism abroad through campaigns, roadshows as well as trade and investment missions to promote Malaysia as a premier medical destination.

On the other hand, private hospitals in Penang have set up medical referral centres in strategic parts of Indonesia to promote their respective hospitals and services. These referral centres are manned by local full time staff who serve as liaison officers between the hospitals and the patients. These liaison officers manage all aspects of the patients' travel to Penang, including the arrangement of accommodation if necessary.

Apart from participating in government organised roadshows and trade missions, private hospitals also organise their own roadshows whereby they bring a delegation of doctors to interact with Indonesian doctors and patients, to visit Indonesian hospitals and to speak at seminars with the aim of educating the Indonesian public and encouraging the inflow of Indonesian patients to the hospitals in Penang.

These hospitals are constantly on the lookout for new target markets - The Middle East, Brunei and Indochina being the latest targets. As far as Brunei and the Middle Eastern region is concern, Malaysia can bank on its Islamic credentials to draw these patients. As it is, Penang draws a significant number of Middle Eastern tourist every year. To fully tap the potential of these markets, hospitals and hotels are working together as hotels are also cashing in on the potential of health tourism. Private arrangements between hotels and hospitals have been made to offer holiday schemes such as spa retreats, relaxation packages and health rejuvenation packages to complement the health screening process. One such company to provide health checks and workouts in a resort setting is Country Heights Health Tourism (CHHT) Sdn Bhd in Selangor. It recently signed a deal with Ken-Air Leisure Sdn Bhd to promote international health tourism within its resort setting and is expected to bring in some 10,000 tourist or RM 48 million worth of business from Indonesia and Europe for preventive and pro-active health screening.[6] A similar health tourism model designed for Penang may attract a larger number of health tourists here.

Hospitals are capitalising on the one visible advantage of medical tourism in Penang in their marketing strategies, that is the cost advantage. The cost of healthcare in Malaysia is by comparison much cheaper than the cost of healthcare of our two major competitors, Thailand and Singapore. Marketing strategies today emphasise cost effectiveness and the quality of the health services and medical equipment.

The problems

The medical health sector in Penang seems to be headed straight for growth with most private hospitals reporting a

[5] "***Raffles Medical Group Buys Penang's Island Hospital for S$48m***" by Frederick Lim, Channel NewsAsia, http://www.channelnewsasia.com/stories/corporatenews/view/113374/1/.html

[6] ***Health Checks, Workouts in a Resort Setting***," NST Focus p5 8th August 2004

steady surge in patient numbers over the years. Moreover, the vast range of health facilities and services available in Penang such as cardiac, fertility, radiotherapy and psychiatric centres further complements this growth. It is thus evident that Penang does not lack in terms of medical technology, equipment and capability and skills of the existing medical professionals. Despite these strengths, problems, which hinder the industry from achieving its full potential exist, such as:

- ***Lack of information, data, and statistics***
  While all hospitals maintain accurate performance records individually, there is no formal system where these figures are compiled and published to represent the overall performance of the health industry in Penang. The creation of a formal reporting system can thus be used as a form of industry benchmark, whereby these hospitals can judge the past performance, identify future trends and collaboratively work on marketing and advertising strategies. More ambitiously, hospitals may even be encouraged to disclose the performance of each section or department to monitor cost effectiveness and encourage healthy competition as part of efforts to streamline and maximise the economic potential of this industry in Penang. This lack of information and data hinders the creation of an industrial standard by which private and public hospitals can measure themselves against in order to continuously improve and upgrade.

- ***Weak Supporting Infrastructure***
  Many private hospitals have expressed disappointment in the lack of supporting infrastructure within the State. Transportation for arriving foreign patients are a nightmare, with errant taxi-drivers and the lack of a proper public transport system. Self-driving health tourists complain of improper road signages and distressing traffic conditions. Rising crime rates around urban Penang such as snatch thefts cause hospitals to fear for the safety of their patients. At present, hospitals take it upon themselves to arrange accommodation for patients who come for Health Screening Programmes which do not warrant admission. Many of them put up in nearby hotels, hostels and apartments. There have been cases where patients are stranded by the roadside for a good ten minutes as they are unable to cross the road due to heavy traffic, or as one may recall not too long ago when an Indonesian tourist passed away due to head injuries as a result of a snatch theft. Public safety and public transport have been cited as among the main concerns.

- ***Lack of coordination***
  The health industry in Penang suffers from a severe case of lack of coordination. Players in this industry saw the need to work cohesively at a recent health expo in Medan, Indonesia where the Singapore Tourism Board grouped its private hospitals and sponsored a pavilion in which all its hospitals had come together to promote medical tourism in Singapore. In contrast, our private hospitals were scattered around the hall as they had all responded individually to the invitation by the organiser. The State government can spearhead efforts to coordinate this high-growth industry by bringing the players in this industry together via collaborative information sharing and marketing strategies. Direction and leadership from the State Government will propel the industry towards growth and expansion of Penang as a medical hub as they become more attuned to the direction of government (federal and state) policies.

At the national level, pressing problems include:

- ***Shortage of medical doctors and paramedical staff***
  The Government has for some time been aware of the shortage of professionals in the medical sector, and has made efforts to fill the demand. It has embarked on remedial measures such as increasing the intake of medical students in local universities, recruiting foreign doctors, nurses and paramedical staff, and reemployment of retired health personnel. Meanwhile, private institutions are being given permission to run twinning programmes for medical students with established medical facilities/universities overseas, as well as nursing colleges. The Eighth Malaysia Plan states that five new institutions will be established in order to train allied health professionals.[7] While these measures will generate a larger pool of medical resources, pertinent structural issues remain, such as:

  i. *3 years of compulsory government service for new medical graduates*
  While this period of compulsory government service is meant for new graduates to obtain in-service course and training and to serve in public hospitals, many new graduates are put off by the

[7] Graduan 2003 "***Overcoming the Shortage of Professionals***", http://www.graduan.com.my/graduan/annuals/overcome.taf

“unpleasant” stigma of government health service such as the meagre allowances received by government doctors despite the strenuous working conditions of long hours and the frequency of being on-call due to the shortage of doctors. With medical studies being a heavy investment, the relatively low remuneration package for fresh graduates in government service make it difficult for them to repay their study loans. This is further compounded by the prospect of being posted to remote areas and townships away from their homes.

As such, many medical students prefer to specialise overseas and if they ever return, it would be to the private sector as fully-fledged specialists. Loop-holes exist within the system wherein senior specialists may find a way of being exempted from the 3 year compulsory service. The leads to a serious issue of Malaysian talent drainage overseas.

Private hospitals are appealing to the government to find ways to increase the manpower needed to staff this expanding industry. Besides the constant demand for doctors and specialists, there is almost parallel demand for other clinical personnel such as paramedical staff. Areas such as Pharmacy, Laboratory Technology, Physiotherapy and Occupational Therapy, Imaging, Dietetics and Speech Therapy are facing a severe shortage of staff. Thus there is a need to promote and expose students to the broader field of medical sciences and not just medicine to create the broader pool of medical resources that this country needs. In 2004, University Kebangsaan Malaysia (UKM) will produce 21 local graduates with degrees in radiotherapy and diagnostic therapy. Meanwhile, many private hospitals have had to resort to employing foreign paramedical workers to support their diagnostic labs and radiotherapy units.

ii. *The compensation and reward structure of nursing staff*

Apart from the acute shortage of medical staff, there is also shortage of nursing staff. Malaysian nurses are being lured by the financial incentives and working conditions of Western and Middle Eastern countries. In a speech by YB Dato’ Dr. Chua Soi Lek, Minister of Health at the graduation ceremony of the Tun Tan Cheng Lock College of Nursing on the 30th August 2004, it was mentioned the Ministry is increasing the emoluments available to nurses to increase the overall attractiveness of the profession. The thing is, until and unless we can offer our nurses similar working conditions as the more developed countries, we can never completely stem the outflow of nurses to these countries which offer better pay and steeper learning curves.

There is a huge demand for medical related professionals in Malaysia within both the public and private sectors and much needs to be done to address this acute shortage. Until these pertinent structural issues are addressed, the shortage seems likely to remain.

- ***Restrictive immigration policies***

Malaysia has strict immigration policies on enabling to foreigners to work within our industries. At present, as a stop-gap measure to address the acute shortage, the government has recruited 643 foreign doctors on contract, comprising 203 specialists and 440 medical officers. Most of them are from India (41%), Pakistan (25%) and Egypt (12%)[8]. Most of the specialists are in the areas of General Surgery, General Medicine and Obstetrics & Gynaecology, with a handful in the sub-specialties such as cardiothoracic surgery, plastic surgery, radiotherapy and urology. In private hospitals, the hiring of expatriate doctors are only allowed if these hospitals are able to justify that there is no suitable local candidate for the position.

These restrictive policies which were implemented to protect the interest of Malaysians can back-fire by denying the Malaysian people access to skill transfer and the benefits of a competitive working environment. The relaxation of these policies will see an inflow of skills and talent, not forgetting that our new graduate doctors will train under these highly-acclaimed medical professionals. The benefits to society and the industry outweigh the benefits of protectionism in this instance.

[8] Speech by YB Dato’ Dr. Chua Soi Lek, Minister of Health Malaysia, at the dialogue with Malaysian Medical Students, London, 24 May 2004. http://www.moh.gov.my/speech/menteri/240504.htm

The Competition

Over the years, the Malaysian health industry has gained in reputation of being able to provide international standards of healthcare at a relatively lower cost than Singapore and other developed Western countries. With Singapore, Thailand and Malaysia aiming toward the same goal in becoming the regional medical hub, competition is stiff. Although the cost of health treatments in Singapore are on average 40% higher that the cost of treatment in Malaysia, Singapore still manages to attract a large amount of foreign patients based on its reputation as a leading medical hub and its impressive supporting infrastructure which makes it hassle free to get around in the metropolitan town. Moreover, the Singapore government has been supportive and proactive in widely opening the market with more flexible immigration regulations, aggressive marketing and services privilege to attract foreign patients. Singapore hospitals have recently teamed up with hotels and travel agents to offer health tourism packages to promote their services to wealthy people from the Middle East. The city state is targeting a five fold increase in the number of its health tourist to a million a year by 2012.[9]

Last year, a total of 973,500 foreigners used medical services in Thailand – an increase of 55% from the year 2002, generating Bt 6.4 billion in revenue.[10] Like Malaysia and Singapore, patients flock to Thailand for quality treatment and treatment, excellent infrastructure and high technology equipment. Unlike Singapore and Malaysia, the major market for medical tourism in Thailand is the Japanese followed by the Americans, British, Chinese and the Indo-Chinese.[11]

The Way Forward

The private health sector in Penang has come a long way. Private hospitals in Penang have single-handedly built up reputations for themselves as world-class healthcare facilities. However, there is fear that as competition stiffens around the region, the success may begin to unravel. If appropriate measures are not taken to maintain the level of service and quality of healthcare offered, Penang may begin to lose its market share to the fierce competition which are able to provide better quality of healthcare and supporting infrastructure.

Some measures could include:

- ***Quality Assurance via mandatory accreditation systems***
  Patients today are both demanding and discerning. A mandatory requirement by the government requesting that all private hospitals seek accreditation from an officially recognised accrediting authority will help to signify that these private hospitals meet a set of industrial operating standards. At present, the only officially recognised accrediting authority by the Malaysian government is the Malaysian Society for Quality in Health (MSQH) which awards the MSQH Accreditation. The MSQH is affiliated internationally and to gain accreditation, the acquiring institution has to pass stringent tests and meet the standards based on international codes. The fact that this is not a one-off affair and requires the accredited institution to continuously maintain and improve its standards will keep private hospitals on their toes and refrain them from crossing the fine line between pursuing profits and its social responsibilities.

- ***Setting up an Organisation/Committee to Spearhead Health Tourism Efforts in Penang***
  The private health sector is a financially independent industry, capable of financing all marketing and expansion efforts by themselves. What is most needed from the State government is support in the provision of the necessary supporting infrastructure and leadership in terms of bringing them together to promote Penang as a health tourism centre. The State government must assist in terms of cleaning up and providing world-class tourism facilities to be able to attract world-class tourists and patients. The lobbying of direct flights (for example Jakarta – Penang) would also bring in a significant amount of tourists.

  New issues in addition to prevailing ones will always arise as with any growing industry. By setting up an organisation to spearhead health tourism efforts in Penang there will be a concrete link between the initiatives and needs of private hospitals and the State government objectives.

  This organisation could facilitate the creation of a much needed Industrial Benchmark at the State level. Over the last five years, Ernst & Young Malaysia in collaboration with the National Productivity Corporation, Universiti Kebangsaan Malaysia and APHM have implemented a benchmarking project for private hospitals

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9 "***Mid-Year Economic Review 2004***", www.bangkokpost.net/midyear2004/health01.html
10 Pusaksrikit T.,& Padkuntod P.,, "***Ticket To Health***", The Nation Thailand, p1A . 13 June 2004
11 Ibid.

within Malaysia. This benchmarking projects aims to gauge technical efficiency, staff utilisation, clinical outcome, patient satisfaction and financial indicators. Unfortunately, the response rates of private hospitals have been low due to various reasons such as the large number of unequally developed public and private hospitals nationwide. As such, the ability to compile an industrial benchmark on a national level may take time.

On a state level however, this process may be shortened due to the smaller number of hospitals and relatively less administration procedures involved. The creation of an industrial benchmark at state level will allow private hospitals to synergise and collaborate their marketing efforts in identifying new potential markets and targeting existing markets.

- ***Capitalising on existing tourism infrastructure***
  Plans for any health rejuvenation packages and spa retreats should utilise existing resorts within the state. In tying up with existing hotels and travels agents, the overall tourism industry in Penang will receive a boost. The laid-back environment and natural beachside and cultural attractions of the state give Penang a competitive advantage in terms of attracting health patients who seek relaxation and tranquillity.

- ***More collaboration between the private hospitals in Penang***
  In the quest to provide the best service and quality treatment to their patients, private hospitals today are embarking on aggressive expansion plans, be it in the physical sense or in the sense of acquiring more expensive staff and state-of–the-art medical equipment. It is important that in this race to be the best service provider, escalating costs are not ignored. Remembering that it is the cost effectiveness that drew these patients here, it will be rising costs that will drive them away as well. A survey of private hospitals as a single entity in Penang today will reveal a medical hub that is well equipped to handle the needs of medical science for a few years to come. The issue is if there is more benefit to be gained by getting together and openly discussing the relative strengths of each institution, and developing a cross-referral system where patients are directed to the institution best able to handle the case. In this sense, each institution will develop its forte in a specialised field, resulting in less market cannibalisation and avoiding the less savoury practice of some institutions running each other down in the bid to “snatch” the patient.

Conclusion

Health care in Penang and Malaysia is developing at a significant pace. Recent government initiatives are a positive sign. Penang has made remarkable progress in the field of health tourism. However, Penang needs to project a more cohesive front on its efforts on build up health tourism.

A visit to the Singapore Tourism website at www.visitsingapore.com will display a link to Singapore Medicine. Singapore Medicine is part of the Singapore Tourism Board’s (STB) effort to coordinate and manage its health tourism industry. This portal links all aspects of health tourism from flight arrivals to airport pickup, appointment scheduling and sightseeing for their potential markets. Most importantly, STB groups the medical health services providers together and helps them to identify their targets and markets their products as a team under the Singapore name. The message that comes across to potential patients is professionalism and the existence of a system designed to manage their entire stay.

Thus, a cohesive effort between the private hospitals themselves and with the relevant State authorities is needed for Penang to maintain its foothold in this lucrative industry. As medical tourism is part of the overall tourism industry, focus should not only be on hospitals, health services and technology but all other related infrastructure and services such as airports, seaports, hotels, traffic systems and the overall cleanliness of the State as well. The success of the Penang health tourism sector will generate additional income earnings and ensure long-term sustainable development. The potential gains from health tourism as a tourism product to draw a larger tourist audience to Penang are huge. ***§ Poh Heem Heem***

Acknowledgements
SERI would like to thank the participating hospitals in Penang for their invaluable time, knowledge and contribution towards this article.

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The GST – How Some Questions Might be Answered

Introduction

The idea of introducing a value-added tax or VAT form of indirect taxation into Malaysia's economy has been around for many years as it has become a common practice among most modern economies in the world today. In his September budget speech, the Prime Minister, acting also as Finance Minister, announced that the system of VAT, to be called the GST or goods and services tax, will be implemented in 2007.

The next two years thus become critically important to the nation, both socially and economically, because how the GST will eventually operate will have an impact on the role of the public sector in the country's economy, the performance on economic growth and as a re-distributive device towards better social equality and opportunities among the nation's people. Accordingly, there will be many questions raised for which answers will be offered from various sources. Together, these make both worthwhile and useful public debate, as this is one of those rare occasions when the government has made known its policy intentions well ahead of implementation, giving room for a full airing of the relevant issues by interested members of society.

Our attempt here, is to look at some popularly posed questions and offer a possible way in which each might be answered. Some answers are definitional and therefore will likely withstand debate. But others will leave room for doubt as their effects will depend very much on actual outcomes when the GST is finally imposed.

How much money does the public sector budget amount to?

The 2005 public sector budget, amounting to RM117.4 billion, would make up roughly about a quarter of the projected gross domestic product or GDP of RM466.7 billion in current dollars. This is a slight decline from about 28% share of the 2004 budget out of the GDP for 2004. The proportion of the public sector budget out of the GDP was also roughly a quarter in 1967 from when it steadily increased and peaked in 1981 when the public sector budget was 46% of the GDP in 1981. Since then the proportion began to decline to between 20% and 30% of the GDP throughout the nineties and through to the present day.

In industrialized economies, the government sector makes up a third of the production in the GDP and the public sector budget can amount to over half of the GDP.[1] In Malaysia, the sum of public services, public education and public health plus public administration makes up about 10% -12% of the GDP on the production side, but the budget as mentioned above makes up about a quarter of the GDP. This difference, between the budget amount and the total value of public goods and services on the production side, reflects transfer payments that occur as a welfare redistribution device designed within the public sector budget. Two things occur in the re-distribution: first, the people who contribute taxes to make up the budget and those who form the major consumers of public goods and services are usually different people and second, the cost of the public goods and services, paid by the budget, tends to be much higher than the value they were bought by consumers that show up on the production side of the GDP. This suggests that as a nation becomes industrialized, the public sector grows and thereby brings about greater scope for redistribution by spending more money as public expenditure than the amount charged to consumers of public goods and services.

How much tax will be collected?

Fifteen years ago, total taxes paid out of the pockets of residents in Malaysia, direct plus indirect, make up about 35% of the budget. In the 2005 budget, total taxes will amount to slightly more than half of the budget. In other words, the government is saying we must pay out of the pocket for a larger proportion of the goods and services that it plans to provide. The non-taxed part of the revenue for the budget comes from other government revenue sources such as fees and licensing, raising short-term debts through security issues and from long term loans and via customs duties and excise. As the economy develops, the potential for government non-taxed revenues increases but the ability to impose customs duties and excise has become more limited as a response to multilateral agreements with trade partners such as under AFTA and the WTO.

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1 Broadway, R. (1997) "Preparing the public sector for 2020: lessons from industrialized countries" in Sulaiman Mahbob et.al (eds.), *Malaysia's Public Sector in the Twenty-First Century: Planning for 2020 and Beyond.* John Deutsch Institute, Canada and Malaysian Institute of Economic Research, Kuala Lumpur, p.9.

Why is the GST considered as indirect taxation?

Our income taxes are paid directly to the inland-revenue department according to our respective tax-brackets. If the government elects instead to collect the same taxes from us indirectly, it will source the revenue directly from producers and vendors from whom we purchase goods and services. The government then leaves it to the producers and vendors to recoup the amount paid on our behalf from us when we consume such goods and services. Hence, goods and services tax amount to an indirect form of taxation where we reimburse the taxes already paid for us by providers of goods and services.

Will the SST be collected still?

No. The plan is to create a single consumption tax system flowing a value-added concept that will essentially replace the single stage tax or SST in the form of sales tax, currently collected under the Sales Tax Act of 1972 and services tax collected under the Service Tax Act of 1975.

Will goods become more expensive?

Not necessarily. Some goods might become cheaper while others might be more expensive. The reason is the government has been collecting indirect taxes under the SST for many years now without many people realizing it. Fruits, certain types of foodstuff, timber and building materials are currently charged a 5% sales tax, *ad valorem,* i.e., according to value. Alcoholic drinks are levied 20%, tobacco products 25% while all other not specifically exempted goods are currently charged a sales tax of 10%. For imports, these taxes are paid upon release from customs control. For local manufactures, producers require sales tax licensing, issued by the customs department, that requires sales taxes to be paid every two-months upon sales of their output. However, currently local manufacturers whose annual sales do not exceed RM100,000 are issued exemption certificates from licensing and are thus currently able to avoid paying sales tax. Many people believe that a similar cut-off scheme will be provided for under the GST that will allow smaller businesses exemption. However, it is unlikely that such an exemption can continue because while it can work effectively if taxes is collected at a single stage controlled through licensing, a value added approach will make such an exemption provision difficult, since collection of the GST will no longer be tied to licensing.

Whether goods will become dearer will depend on the rate of GST to be levied. If it is 5% for instance, then a wide range of goods might well be cheaper as these currently face a sales tax levied at 10%.

At what rate will the GST be?

At a recent budget dialogue attended by tax accountants and customs and inland-revenue authorities, a rate of 5% appears to be the consensus after looking at prevailing rates charged by many countries across the world. There might also be a possibility that the government would implement GST rates in stages, as it was done in Singapore, where the rate might begin somewhere around 3% and is increased over the years.

We might look at it from a different perspective. Considering that the government aims to raise say half of the public sector budget from taxes, paid out of pocket, then the question is what will be the mix be between direct and indirect taxes? A low GST rates will only mean that direct income tax will not be able to come down as much. A higher GST will reduce the needs from income taxes. All in all it should make no difference to tax payers taken in aggregate since they will have to come out with half of the money to fund the budget. Of course, what the mix will be will affect individual taxpayers depending on tax bracket and pattern of consumption.

So how should we decide on a good mix between direct and indirect taxes?

More indirect taxes and less income taxes will help boost economic growth, because the private sector will have more money to invest. Every dollar of the 28% corporate tax is potential investment fund to the private sector, which is lost because of the diversion from the private to the public sector. The loss of returns from this, in perpetuity, is technically called the shadow price (opportunity cost) of public investments.[2]

Higher income tax also becomes a disincentive to expand production. Less indirect taxes and more income taxes will allow for a more progressive tax structure that targets high income earners sparing the lower income group a heavy tax burden. Thus a balance will be needed that will help boost growth and yet not make tax collection too regressive. This said, the imposing of too low a GST rate might be a waste of effort because income taxes cannot come down and thus more economic growth cannot be milked out of it.

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[2] If the returns from RM1 of private sector investment is d cents per year and the social discount rate is v, then the loss of perpetual returns from RM1 diverted as tax to the public sector amounts to $\Sigma\ 1/(1+v)^t = d/v$ when summed to infinity. Thus the shadow price of public investment is a value more or less than 1 depending on whether returns to private sector investment, d, is higher or lower than the social discount rate, v.

What does it mean when it is said that the GST is more comprehensive, i.e., broadens the tax base?

The amount of tax revenue that the government gets to collect is the tax rate times the size of the tax base, which is the total value of the items upon which taxes are levied. In the case of direct income taxes, the tax base comprises the chargeable incomes of taxpayers: salaried employees, those self-employed, large corporations and small and medium businesses. Presently salaried chargeable incomes are levied between 1% (chargeable income above RM2500) and 28% (chargeable income above RM250000) on a progressive scale. Corporate business pay a flat rate of 28% while small and medium businesses earning up to RM500,000 chargeable income annually pay 20%.

In the case of the GST implemented on a value-added basis, however, assuming that it is levied across the board without exemptions, essentially all business related value-added whether from production or services (technically all revenue minus cost) would make up the tax base. Unlike chargeable incomes, which is much less than total income earned due to the many tax breaks (allowances) that the government offers, the total value added comes much closer to total income earned. Given that the tax base has increased, to generate the same amount of revenue the rate levied need only be much smaller say in the less than 10% range compared to the 20% to 30% range for income taxes. Therefore, as tax-payers our concerned should focus on how much we need to pay by way of taxes each year rather than the rate levied.

What does it mean when it is said that the GST makes tax collection more transparent?

As mentioned, the single stage collection of sales tax and services tax is currently charged on the bills that we pay without really telling us what the price would have been prior to the tax. Food items that are not exempted include a 5% sales tax, alcoholic drinks, 20% and tobacco products 25% while all other items are levied 10% unless exempted or unless the producer of that product falls below the RM100,000 sales turnover cutoff. It is nearly impossible to know which item we have bought contained a tax element and which that did not. Under the GST, say if the rate is 5% then we know for sure that we have paid 5% over the actual cost of the item we have bought as taxes and this is disclosed clearly on our bill. Today, should we happened to stay at a hotel or ate at its buffet for RMXXnet there is a bit of arithmetic to perform to take out the amount that has gone into sales tax and service charges to arrive at the actual price of the room or buffet meal. There is less transparency today.

What does it mean when it is said that the GST makes tax collection more efficient and effective, i.e., increase the level of tax compliance?

It is only common practice today to as much as possible reduce our tax exposure without actually breaking the law by falsifying accounts. Inland-revenue officers face the headache of distinguishing between honest tax-payers and outright tax evaders. With the GST, this is no longer the problem. GST is paid at each stage of the value chain from raw material suppliers to millers to fabricators, wholesalers and finally retail sales distributors on behalf of the consumer, the source from which the government ultimately seeks the tax revenue. The GST that, say, the wholesaler, somewhere in the middle of the value chain, collects from its sale to the retailer is paid directly to the tax authority but the GST that the wholesaler had previously paid when buying from the manufacturer does not amount to consumption and should not have been taxed. To be eligible to claim back the amount paid as GST, the wholesaler has to furnish invoices of the amount paid to the manufacturer and the amount sold to the distributor, in other words, reveal the exact value added between the manufacturer and the retail distributor. In other words, while in the past, businesses are shy about showing their paperwork to the tax authorities when paying income taxes, under the GST it will be difficult to hide them since the guy along the value chain in front of you is furnishing all your sales revenue documents to the tax authorities in order to claim back the GST he has paid to you. It is therefore easy to see that the inland revenue department will be a beneficiary of the GST as future income taxes collected alongside the GST will make sales revenue that are subject to income taxes very transparent.

Should we trust government with more money?

At some point there has to be some public debate on the size of government. At present a quarter of the GDP is diverted to make up the public sector budget, and half of the funds are to be raised from out of the pocket taxation through a combination of direct (income tax) and indirect taxes (SST to be replaced in 2007 by the GST). The development (industrialized) country standard is as much as half of the GDP. Is this where Malaysia will go, should it stay where it is today or should government expenditure go down to like only ten percent of the GDP? The issue is a matter of the scope of government involvement in the everyday workings of society. To do more, more money will be needed and therefore expanding the tax base becomes a necessary strategy. This inevitably implies that more from society will end up paying taxes and therefore the question arises as to how the poor might be affected.

How will the GST affect the low-income members of society?

The GST is likely to make taxes regressive compared with the progressive tax rates paid as income taxes. Studies show that as income levels increase, the proportion of additional income that goes into consumption reduces. Instead, the proportion that goes into savings and investments on the other hand increases. Consumption is taxed while many forms of savings and investments instead offer tax breaks. This means that lower income earners will have to pay, relatively, a larger proportion of their income as taxes levied through consumption even though the upper income earners pays more taxes, in absolute terms, since they likely consume more but such taxes makes up a smaller proportion of each additional income earned.

Again, we might look at taxes and the government's public expenditure from a different perspective. Studies also show that as the economy becomes more developed and industrialized, the poorer segments of the society make up an increasing proportion of public goods and services – public health, public education, public social services, which used to be only very basic when the economy was less developed but becomes increasingly more diverse and comprehensive with larger budget allocations. For instance, heart bypass surgery is routinely performed today in Malaysia, and it is accessible across the entire society. Twenty or so years ago, if you need a heart bypass and you cannot afford to go abroad for one, then the government doctors can only wish you well by prescribing you with medication. Kidney dialysis treatment that patients require several times a week has become affordable today even among ordinary folks. Places in public universities have increased by a huge magnitude over the last twenty years, affording opportunities for earning a degree at a tiny fraction of the actual cost of providing them. Non-government organizations that together offer a variety of social services now receive financial assistance directly from the public budget allocations. The list goes on. One might be poor today and have little need of some of the goods and services that the government currently offers but realize that many more who are also poor have found such services needful, oftentimes life saving. With expanding scope of government involvement more public goods and services can come into existence and meaningfully implemented as a re-distributive device across Malaysia's society. ***§ Dr. Chan Huan Chiang***

As the issue of GST and how it should be implemented will affect each and everyone of us intimately, and as the government has given fair warning of its impending implementation, we would like to enable fuller public discussion of the issue. Beginning from January 2005, we will be running a series of articles by Prof. Dr Suresh Narayanan of the Universiti Sains Malaysia on the GST, and we invite your views and feedback on this new tax regime.
