Penang GRP for Quarter 1 2005

June 2005
Volume 7, Issue 6

PENANG ECONOMIC MONTHLY

In This Issue

Socio-economic & Environmental Research Institute
10 Brown Road,
10350 Penang, Malaysia
Phone: 604-2283306
Fax: 604-2267042
Email: seripg@tm.net.my
Website: http://www.seri.com.my

An Overview

Amidst concerns over high oil prices, slowdown in the global semiconductor industry and the aftermath of the tsunami disaster, Malaysia started the year off with a growth of 5.7 percent in the first quarter of 2005 (Q1'05). Although the growth rates remained within general expectations, the growth achieved is less substantial in comparison with the 7.8 percent growth achieved in the same quarter in 2004. Penang's economy in Q1'05 moved along the same lines as the Malaysian economy, whereby the 5.9 percent growth rate attained in Q1'05 is lower than the 7.1 percent growth in Q1'04. As can be seen from Table 1, manufacturing and services continue to be the main propellers of growth in the Penang state while both the mining & quarrying and construction sectors continued their declining trend in growth since last year. Sectoral contributions to the state remained relatively unchanged, with the services sector contributing to more than half of the total GRP of the state of Penang.

Table 1: Real GDP and GRP (Percentage Growth)

Sectors	Malaysia		Penang	
	1Q'04	1Q'05	1Q'04	1Q'05
Agriculture, Hunting, Forestry & Fishing	3.8	6.0	3.5	3.8
Mining & Quarrying	5.9	3.3	-4.6	-5.6
Manufacturing	12.5	5.6	10.0	6.3
Construction	0.9	-2.4	0.5	-8.5
Services	6.4	6.0	5.5	6.5
Total	**7.8**	**5.7**	**7.1**	**5.9**

Source: SERI and BNM

Table 2: Penang's GRP by Economic Sectors

Sectors	Penang Sect Share (percentage)		Volume (RM million in 1987 Prices)	
	Q1'04	Q1'05	Q1'04	Q1'05
Agriculture, Hunting, Forestry & Fishing	1.53	1.50	76	78.6
Mining & Quarrying	0.95	0.85	47	44.5
Manufacturing	42.42	42.55	2,098	2229.1
Construction	1.97	1.70	97	89.1
Services	53.13	53.40	2627	2797.5
Total	**100.00**	**100.00**	**4,945**	**5,238.8**

Source: SERI

Manufacturing

The manufacturing sector, the main driver of Penang's economy outperformed Malaysia's total manufacturing sector with a 6.3 percent growth compared with the country's 5.6 percent growth, thanks to stronger growth in exports. Manufacturing output moderated slightly from Q1'04's 10.0 percent y-o-y increase as domestic manufacturers of E&E products continued with their inventory adjustment exercise and rationalised production in 1Q'05.

Investments into Penang in the first quarter of this year have experienced a severe plunge compared to the same period last year. There were only 28 projects approved in Q1'05 compared to 43 projects in Q1'04 (see Table 3). While employment remains stable over the review period, the value of manufacturing

...the value of manufacturing projects approved has been reduced to only RM341.5 million compared to RM469.2 million in Q1'04, an appalling 27.2 percent drop y-o-y.

projects approved has been reduced to only RM341.5 million compared to RM469.2 million in Q1'04, an appalling 27.2 percent drop y-o-y. One reason for the decrease could be the shift of investor's preference to lower-cost countries such as China and India. As can be seen in Table 4, investments into the E&E sector have shrunk by a whopping 36 percent. Investments into fabricated metal products on the other hand has risen significantly by more than 2 fold in Q1'05 compared to Q1'04. In terms of the source of investments, although the total amount of local investments has fallen by 30.4 percent y-o-y, it still stands for the larger share of the total investments. Foreign investments only make up 40 percent of the total amount of investments in Penang in Q1'05. As much as it is encouraging to see local investments leading the way, the freefall of foreign investments is a major cause for concern for the state as total foreign investments have dropped significantly since 2001 and has never recovered since.

Table 3: Penang: Number of Approved Projects and Investments (Local & Foreign)

	Q1 2004	Q1 2005	Percentage Growth
Number of Projects Approved (unit)	43	28	-34.9
Potential Employment (person)	2,322	2,560	10.2
Amount of Investment Approved (RM)	469,092,969	341,477,402	-27.2
Local	298,963,336	208,186,911	-30.4
Foreign	170,129,633	133,290,491	-21.7

Source: MIDA

Table 4: Approved Manufacturing Projects By Industry in Penang

Industry	Number of Projects		Total Investment (RM)	
	Q1'04	Q1'05	Q1'04	Q1'05
Food	2	-	11,669,537	-
Paper,Printing & Publishing	2	2	21,399,003	11,879,000
Chemical & Chemical Products	-	1	-	925,000
Rubber Products	-	1	-	10,272,720
Plastic Products	3	1	16,655,000	15,940,000
Basic Metal Products	1	2	1,400,000	25,500,000
Fabricated Metal Products	4	8	14,820,600	34,013,789
Machinery Manufacturing	7	5	42,874,600	12,602,714
Non-Metallic Mineral Products	1	-	6,170,461	-
Wood and Wood Products	1	-	7,100,000	-
Electronics & Electrical Products	20	6	335,803,768	214,828,179
Transport Equipment	1	-	200,000	-
Scientific & Measuring Equipment	1	1	11,000,000	7,216,000
Miscellaneous	-	1	-	8,300,000
Total	43	28	469,092,969	341,477,402

Source: MIDA

...performance of the semiconductor industry is expected to pick up in the second half of 2005.

While sales growth in the semiconductor industry is rather sluggish in 1Q 2005, performance of the industry is expected to pick up in the second half of 2005 on the back of rising demand for computing, mobile, wireless and disk storage products. Major global research agencies, namely Semiconductor Industry Association (SIA), Gartner Inc and WSTS have forecasted a sales growth of 6 percent in the semiconductor industry this year. As inventories of chips and computer as well as electronic products dwindles, E&E firms can expect higher business volume ahead as production starts to speed up in tandem with strong demand.

Tertiary

The biggest contributor to Penang's economy, the tertiary sector continued to flourish, recording an increase of 6.5 percent in Q1'05 as compared to 5.5 percent posted over the same period last year. Private consumption has been the main engine of the economy and this can be seen in the stronger growth in BNM consumption credit loan. Credit loan expanded by 11.3 percent y-o-y. Consumption credit loans reflect loans for personal uses, credit cards and purchase of consumer durable goods.

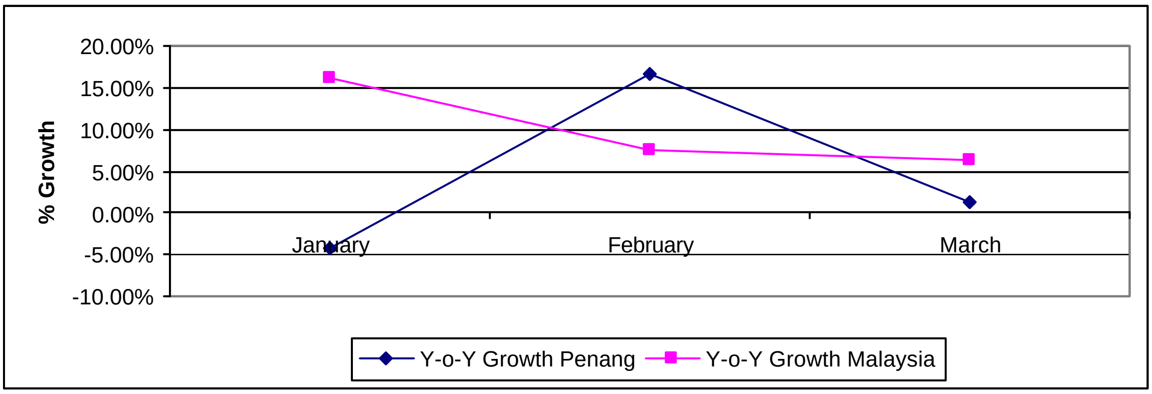
New motor vehicle registration is another important indicator of consumer demand. In Table 5, the number of new motor registration in Q1'05 rose by 3.7 percent y-o-y compared to the same period last year, reflecting strong consumer sentiment in Penang. In Q1, Penang growth rate trend was rather volatile. In February, there was a surge in new motor vehicles, probably due to deferred purchase in the previous months. The motor industry is expected to undergo another change in the pricing structure as the current tax structure effective Jan 1 this year comes to an end in August 31, 2005. Thus, the uncertainties in pricing ahead will be reflected in the volatility in sales.

Table 5: Penang – New Motor Vehicle Registration

	Penang		Malaysia		Percentage Growth	
	2004	**2005**	**2004**	**2005**	**Penang**	**Malaysia**
January	7,765	7,426	71,637	83,255	-4.4	16.2
February	6,287	7,336	63,656	68,479	16.7	7.6
March	8,566	8,682	81,872	87,200	1.4	6.5
Total	22,618	23,444	217,165	238,934	3.7	10.0

Source: Road Transport Department, Malaysia

Chart 1: The Growth Rate of New Motor Vehicle Registration in Q1'05



Source: Road Transport Department, Malaysia

Table 6: Penang – Hotel Occupancy Rate (Percent)

Hotels	**Quarter 1, 2004**	**Quarter 4, 2004**	**Quarter 1, 2005**
Beach Hotels	58.49	53.11	45.48
City Hotels	64.73	68.90	58.64
Total	61.61	61.00	52.09

Source: MAH Penang Chapter

Just as things seem to picking up again, the December 26th tsunami disaster last year has brought some major damage to the tourism sector in Penang. Major hotels in Penang have been hit by low occupancy rates since the first waves hit the Asian region. Total occupancy rate fell from a reasonable 61.61 percent in Q1'04 to 52.09 percent in Q1'05. City hotels managed to record much higher occupancy rates than the beach hotels. The occupancy rate of beach hotels continue to suffer as there are still lingering fears of a repeat of a tsunami tragedy. Besides that, Penang is also losing out to the more aggressive marketing strategies by other more popular tourist destinations like Thailand in its bid to re-attract tourists. However, with ongoing tourism promotions and attractive room prices offered in the various hotels in Penang, we hope the numbers will improve in the coming quarter.

Total occupancy rate fell from a reasonable 61.61 percent in Q1'04 to 52.09 percent in Q1'05.

Although overall private consumption increased, the retail sector did not perform too well in the first quarter. Malaysia's retail industry slowed down as it posted only a 4.8 percent growth in Q1'05 compared with the 5.9 percent growth in the same quarter last year. According to a report by the Retail Group of Malaysia, in the overall sales performance of departmental stores cum supermarkets sub-sector and department stores sub sector, drastic drops were recorded in the fashion and fashion accessories sub-sector and other specialties stores sub-sector during the first 3 months of the year.

Agriculture, Hunting, Forestry & Fishing

This sector recorded a commendable growth of 3.8 percent y-o-y as compared to overall agriculture sector growth rate of 6 percent y-o-y in Malaysia. The agriculture sector remains an importance sector in Penang as it provides diversity in the economy as well as increases food production in support of the national policy to enhance food security.

We observed the softening of palm oil prices in Q1'05 due to high stockpiles and expectation of increasing production in the coming months. Soybean and palm oil compete for similar export markets and their prices often move in line. Export demand for palm oil is dependent on price and quantity, relative to those of its closet rival soybean oil. Production of soybean has gone up, especially from US, South America and China, while prices tumbled, yielding an attractive alternative to palm oil. Besides, higher export cost, due to high bunker oil prices has also kept a rein on local exports.

Meanwhile, growth in aquaculture has taken a slight beating due to the tsunami impact. Generally, the production of freshwater was not affected apart from 1 catfish farm in Sungai Burong. However, the production of brackish water cages, especially at Teluk Bahang and Pulau Betong were the badly affected, recording a 43.6 percent decline in production. Many cage operators are just starting up again in Q1'05. Brackish water cages production at Jelutong, Pulau Jerejak and Batu Maung were not affected. Oyster production was the most adversely affected, whereby the production figures was brought down to zero as the oyster farms in Pulau Betong were completely wiped out by the tsunami last December.

In the marine landings segment, there was an increase in individual catches on one hand and declining fishing efforts on the other. Some fishing folks have not fully recovered as many nets and boats were destroyed in the tsunami. Thus fish breeders and other fishing operators have been reported to have suffered losses that exceeded millions of ringgit as tonnes of fishes that were being reared for Chinese New Year for both local and foreign markets were destroyed by the tsunami. We expect the fishery sector to recover in the coming months and continue to contribute significantly to the state economy.

Table 7: Production of Selected Fishing Products

		Q104	Q105	Percentage Growth
Freshwater Ponds	Metric Tonnes	102.26	230.47	125.4
	RM	304,860.40	593,543.40	94.7
Brakishwater Cages	Metric Tonnes	503.27	283.90	-43.6
	RM	9,287,969.50	5,688,205.00	-38.8
Brakishwater Ponds	Metric Tonnes	269.30	265.33	-1.5
	RM	4,995,460.00	4,299,370.00	-13.9
Cockles	Metric Tonnes	1,871.74	2,690.33	43.7
	RM	1,802,629.00	2,607,579.00	44.7
Oysters	Metric Tonnes	6.51	-	-100.0
	RM	131,500.00	-	-100.0
Ornamental Fish	Number of Fishes in Pieces	58,239.00	118,819.00	104.0
	RM	462,015.00	268,631.80	-41.9

Source: Fisheries Department, Penang

Construction

The construction sector in Penang fell by 8.5 percent y-o-y as compared to the decline of 2.4 percent in the overall Malaysian construction industry. The lack of new infrastructure projects has taken a toll on the industry. As the public sector takes a backseat in the economy, the private sector is being pushed to the fore. Most of the private construction projects are focused on the property sub-sector.

Table 8 demonstrates an overall marginal increase in cost of building materials for the first three months of 2005, using July 2002 prices as base price. Most items registered higher prices in March compared to January except RC piling works, foundation works and plumbing works. Compared to the other states, building material cost in Penang is relatively cheaper or on par with the other states except for the steel and structural works as well as the plumbing works categories, where prices tend to be on the higher-end.

Table 8: Building Materials Cost Index by Work Section and Region

Work Section	*Period*	REGION					
		A	B	C	D	E	F
		Pulau Pinang, Kedah, Perlis	Perak	Kuala Lumpur, Selangor, Negeri Sembi-lan, Me-laka	Johor	Pahang	Kelantan, Tereng-ganu
	JULY 2002 = 100						
RC Piling Works	Jan 05	120.0	127.2	125.7	123.9	130.2	129.6
	Feb 05	119.6	127.3	125.3	124.2	130.2	129.0
	Mar 05	119.5	127.3	125.9	122.4	128.0	129.1
Foundation Works	Jan 05	113.4	121.5	122.7	120.7	125.0	124.3
	Feb 05	113.3	121.5	122.4	121.0	125.2	123.7
	Mar 05	113.3	121.5	122.6	119.5	123.2	123.7
RC Structural Works	Jan 05	115.8	124.0	124.3	122.7	127.4	126.4
	Feb 05	115.9	124.2	124.1	123.2	127.8	126.1
	Mar 05	115.8	124.3	124.4	121.6	125.7	126.1
Steel and Struc-tural Works	Jan 05	134.9	133.0	133.5	135.4	135.6	133.1
	Feb 05	136.6	133.8	135.0	136.9	137.3	134.6
	Mar 05	140.0	137.1	138.2	140.9	140.9	138.1
Brickworks and Blockworks	Jan 05	105.0	106.7	110.7	107.5	108.0	114.0
	Feb 05	105.1	106.7	111.1	107.6	108.5	113.4
	Mar 05	105.2	106.7	110.9	108.2	108.6	113.7
Roofing Works	Jan 05	114.3	118.4	113.9	121.4	120.0	116.9
	Feb 05	115.1	118.9	114.2	121.9	120.5	117.0
	Mar 05	115.9	119.7	115.4	122.5	121.0	117.9
Doors and Win-dows Works	Jan 05	112.7	112.7	112.8	113.4	112.9	114.5
	Feb 05	112.8	112.8	113.0	113.8	113.1	114.6
	Mar 05	113.0	113.0	113.2	114.5	113.3	114.8
Finishing Works	Jan 05	100.6	100.9	101.6	101.8	101.4	103.3
	Feb 05	100.3	100.9	101.8	101.8	101.5	104.1
	Mar 05	100.6	100.9	101.9	101.9	101.7	104.9
Sanitary Fittings Works	Jan 05	101.0	102.2	100.4	100.6	102.9	100.4
	Feb 05	101.2	102.3	100.4	100.7	102.9	100.4
	Mar 05	101.2	102.3	100.4	100.8	102.7	100.4
Plumbing Works	Jan 05	118.2	118.5	112.2	117.0	115.6	107.6
	Feb 05	117.7	117.3	112.1	116.8	115.7	108.1
	Mar 05	117.7	117.9	112.3	117.6	115.8	107.8

Source: This index is compiled from data supplied by Department of Statistics

Short-term prospect for the construction industry in Penang may not be bright as government projects have been cut back in response to the huge fiscal deficit.

Short-term prospect for the construction industry in Penang may not be bright as government projects have been cut back in response to the huge fiscal deficit. Although the new 9th Malaysian Plan is expected to unveil new infrastructure projects, we believe that these allocations will be focused mainly on the East coast infrastructure development, such as water and sewerage, schools, as well as transportation. The construction sector in Penang is heavily driven by private projects, especially from the property sub-sector. In 1Q, many property projects were concentrated on the low-medium cost housing segment. There were a few launches of high end properties on the island as well. Meanwhile, the prices of low-medium cost housing have seen a moderate rise in prices of around 5 percent while higher-end houses may still generate good prices depending on locations. Nevertheless, land prices on the island remain high due to limited land area.

In the long-term, prospects of the construction industry are positive as Penang is a developing state. As Penang strives to achieve the status of a developed state, there are bound to be many more construction projects coming up. For instance, the development of

… property sub-sector will also continue to flourish on the back of steady demand and the vast potential of Seberang Prai being developed into residential and commercial areas.

public transportation system and better roads are areas that are being looked into. The property sub-sector will also continue to flourish on the back of steady demand and the vast potential of Seberang Prai being developed into residential and commercial areas. The new property projects expected to be launched in the following quarters include bungalows, linked bungalows, terrace houses and condominium units.

Mining and Quarrying

The mining and quarrying sector in Penang continued to slip into further decline as growth shrunk by 5.6 percent y-o-y in Q105. With approximately 13 quarries on the mainland and 4 on the island, the State's quarrying activities are the main source of blockwork supply to local construction firms. The lack of construction activities may have somewhat negatively affected the production in the mining and quarrying sector. Sectoral contribution to Penang GDP remains below 1 percent.

BNM Loans

Loan figures are important indicators of growth in the given sectors. For Q1 2005, the bulk of loan applications in Penang came from the purchase of residential property (construction, residential & non-residential property), followed by manufacturing and purchase of transport vehicles (74.1 percent of total loans). The loan indicator reflected robust growth in consumer spending while the manufacturing sector managed to reverse the negative trend posted last quarter to record a marginal loan growth of 0.8 percent year-on-year.

Table 9: Growth Rates in Loans by Sector

Sectoral Loans	Percentage Growth	
	Penang	Malaysia
Loans-agriculture, hunting, forestry & fishing	-10.7	2.0
Loans-mining & quarrying	9.2	-13.8
Loans-manufacturing	0.8	2.7
Loans-utilities	11.3	-13.1
Loans-wholesale,retail, restaurants & hotels	0.0	12.3
Loans-property (construction, residential & non-residential property)	11.0	11.4
Loans-finance, insurance, real estate & business services	-5.6	2.6
Loans-transport,storage & communication	15.4	-10.6
Loans-consumption credits	11.3	15.4
Loans-purchase of securities	12.1	-1.9
Loans-purchase of transport vehicles	15.6	15.5
Loans-community,social & personal services	-6.4	6.1
Loans-sectors n.e.c.	-17.9	0.0
Total Loans	7.1	8.5

Source: Bank Negara Malaysia

Conclusion

Penang Q1 GRP at 5.9 percent has outperformed the national GDP of 5.7 percent. However, this may not be too significant as the Malaysian figure was derived from a higher base growth rate (7.8 percent in Q1'04) as compared to Penang (7.1 percent in Q1'04). Sectoral contribution to Penang remains about the same with the major contributors being manufacturing and services sectors. Going forward, we expect moderation in Penang growth rate in tandem with the national GDP rate forecast of 5-6 percent in 2005. Downside risks include the downturn cycle of the global semiconductor cycle, which remains a driver of Penang economy; high oil prices which may prove detrimental to growth in the long run; as well as uncertainties in the global economy. **§** ***El'millian Chew Saint Fey & Tan Yin Hooi***

The Penang Structure Plan (2005-2020): Top Down or Bottom Up?

Introduction

In May, the Penang Structure Plan's report of surveys was made public in a month long exhibition held at KOMTAR in conjunction with its publication. The purpose was to solicit feedback from members of the public so that the draft structure plan could be formulated more comprehensively. A public forum (town meeting), open to all, was held on May 28 and again, on June 11 to help facilitate this. Yet much confusion remains over exactly what the structure plan hopes to achieve and how best such hopes can come to pass from the diverse perspectives of individuals given their different capacities – as town planner, government officer, academic, politician, concerned citizen, interest group representative, stakeholder or ordinary member of the public.

Technically speaking, the structure plan is about development control, i.e., it is to form the basis by which physical development project proposals of all sorts of scale could be given the government's stamp of approved. The plan is both a map as well as policy statements, which when set in law becomes a binding instrument that governs what private citizens, corporate bodies and public institutions could or could not do to shape the physical environment within which we carry on our daily lives. But how is such a map and policy statements best produced? Who should be involved? What safeguard mechanisms are there to ensure that more collective representations are made and views heard? How do we ensure that the plan is effective in that it can unambiguously govern physical development without too many loopholes that lead to non-compliance?

The key to addressing these questions lies in the institutional framework within which the structure plan is embedded. It is, unfortunately, not as tidy as it could have been by way of the source from which the structure-plan arose, and the final custodian of the structure plan throughout the lifecycle of its implementation. The law in Malaysia is clear about source and custody but town planning and physical development is what local government is all about, not state and certainly not federal governments.

Bottom up (micro) beginnings

The system of governance in Malaysia comprises federal, state and local governments. There is a high degree of political stability, given that the same party coalition has been elected into office in every general election since Merdeka at both the federal and state levels – except for occasional victories by opposition parties in some states. Local governments used to be elected but they have not been so since 1965.[1] Local government councilors have since been appointed observably following party lines.

On the one hand, one may hold the view that since all three levels of governments are mostly formed by the same party coalition, there will not be inconsistencies in the policy aspirations over federal, state or local matters. However, on the other hand, looking specifically at town planning, the policy aspirations may be similar but these have to be translated into physical entities like buildings, roads, greens all articulated and arranged to become coherently functional within specific local environments in which people exist and move about. This is what structure planning is all about – translating policy into objects that delineate living and working spaces in the environment. It is for this reason that town planning and local

[1] Elections of local government were empowered under the Local Authorities Elections Ordinance (1950). Furthermore, the Local Councils Ordinance (1952) authorizes local residents to form local councils. These laws were superceded by the Emergency (Suspension of Local Government Elections) Regulations, 1965 and the Emergency (Suspension of Local Government Elections) Amendments Regulations, 1965, both introduced after Indonesia's confrontation with Malaysia in 1964.

governments become inseparable entities. Hands-on experience at the scene and not remote control from afar will be what that is needed to change policies into functional forms on the ground.

British settlements in Malaya were first governed by the colonial administration in British India and later by the Colonial Office in London. Yet as early as 1801, to avoid governing from afar, the first semblance of local government in Malaysia, called the Committee of Assessors, had been formed in Penang. The Town Planning Enactment was legislated in 1923 and put the charge of physical development in the hands of the town planning committee.[2] In 1927, town-planning committees were abolished and the planning function transferred to the Sanitary Board, the form of local government at the time, under CAP137 Part IX (later known as the Town Board Enactment) of the 1930 Sanitary Boards Enactment.[3]

The town-plan was then essentially a zoning map. There were no planning legislations since then until the draft Town and Country Planning Ordinance of Malaya was submitted to the Ministry of Housing and Local Government in 1966 but it will take another ten years before formal legislation came about as the 1976 Town and Country Planning Act or Act 172.

Local government

Act 172 places the primary responsibility of local planning in the hands of the local government. However, because of earlier laws, such as the 1952 Local Council Ordinance, which enabled local residents to constitute local councils of various types, each empowered to pass their own local ordinances, enactments or bylaws, the situation during the sixties was a complex proliferation of both local governments (418 in all) as well as regulations. In response a royal commission of inquiry on local authorities, the Nahappan Commission, was formed in 1965. The report by the commission was unfortunately set aside by the government, perhaps because it recommended the revival of local government elections or that it placed too much emphasis on people participation.[4] Nonetheless, all local governments in the country were restructured and consolidated under the uniform 1973 Local Government Act (Act 124) Temporary Provisions as a precursor to the passing of the Local Government Act of 1976 (Act 171) that spelt out the many functions and powers that were entrusted to the local government.

Top down (macro) aspirations

There is a bit of irony that arose of both Act 171 (local government) and Act 172 (town planning by local government), because while the local government had been given enormous empowerment by these legislations under Act 171, the local government, at the same time, came under very close supervision. While Act 172 says that the formulation of strategic and spatial plans that translate broad government policies lie within the local government, it also says that the responsibility of general land use policies of all local governments belong to the state government. This supervisory role by the state over the local government, devised within the Act 172, is in the form of the establishment of the State Planning Committee, chaired by the Chief Minister and the Town and Country Planning Department acting as secretariat to it. What this means is that the ultimate decision making for land use planning approvals come under the state rather than at the local government, which has been effectively reduced to a day-to-day operation rather than policy role.

The earlier structure plans were formulated by the local government and approved by the state in accordance to Act 172. More recent practices, however, (actually contrary to the Act 172) have led to structure plans being formulated by the town and country planning department that results in a state-wide structure plan, only one for each state, and hence reflect state level rather than local level aspirations. Of course, structure plans are meant to be eventually mapped out in greater detail in local plans for which the local government would supposedly be more intimately involved. But it is precisely here where the contention will

---

[2] *The Town and Country Planning Department on its homepage <www.penang.gov.my/jpbd/ > traced its origin to 18 January 1921.*

[3] *For a historical account of town planning in Malaysia by Lee Lik Meng see <www.hbp.usm.my/townplg/history/prewar2.htm#1921>*

[4] *See Johan Saravanamuttu (2000), "The Snuffing Out of Local Democracy in Malaysia" in <www.aliran.com/monthly/2000/04h.html>*

likely arise. If memory serves right and events not overlooked it appears that there has only been one local plan, the one for Penang Hill, ever passed in Penang in conjunction with structure planning in Penang.[5] So despite the provision that public participation is provided for in the development of local plans, "few have been displayed for public objections and gazetted as legal documents." Even so, "public participation in structure plans and local plans has no binding effect."[6]

While the state or the Town and Country Planning Department are widely deemed as government beyond the reach of local folks in terms of better public participation, they are, however, better equipped to undertake the task of town planning. It is thus perhaps due to expediency that more recent structure plans have sprung from Town and Country Planning Departments across the country at much higher rates than when local governments attempted structure planning on their own.

There is an oddity about the Ministry Housing and Local Government. In the case of the local government section within the ministry, which was established in 1978, the function is to oversee the restructuring of local governments throughout the country in accordance with Act 171 as well as to help build capacity in terms of equipment and the needs of local projects carried out by individual local governments. The role is thus only supportive leaving much of the onsite decisions to the respective local government, which remains largely autonomous and respectively staffed by their own officials. No problems there.

The case of the Town and Country Planning Department, within the same ministry, takes on an entirely different complexion. Its function is the joint responsibility between federal (the ministry) and state governments for all town and country planning in Peninsular Malaysia, which includes giving assistance in the preparation of local, structure, state and regional plans and urban renewal projects, such tasks, rendered via various state agencies of the Town and Country Planning Department. The stark contrast is while the local government section of the Ministry of Housing and Local Government plays only a supporting role to local governments across the country, the Town and Country Planning Department in the ministry as well as its agencies at the state, which are manned by federal appointed officers, undertake day to day operational and decision making roles at the local level – technically via its secretariat function to the State Planning Committee.

Effectively what this means is that while Act 172 places town planning in the hands of the local government, it being defined under Act 171, more and more of the town planning task are now, as a matter of expediency, being taken over by the Town and Country Planning Department. This does not contravene the law since Act 172 also says that the ultimate responsibility of the town plan lies with the state by way of the State Planning Committee for which the Town and Country Planning Department acts as secretariat.

But regardless of who is ultimately responsible, town planning is still for the citizenry and for this reason some level of citizenry participation is essential. Which - local, state or federal - governments would foster a closer bridge between policy and the people? We need to pose this question.

Functional cities: the role of ordinary citizens

Town planning comprises two essential features. First, it must begin with policies, which has to be translated somehow into physical objects that can effectively meet the living, working, socio-recreational and transportation needs of the people and while doing so, it has to, second, address and propose an amicable resolution to likely conflicts that arise from competition by these different needs. Structure plan policy statements amount to various options that help resolve potential conflicts and public participation is solicited to identify the desired social choices so that the form and distribution of objects like housing, industry and commerce, social amenities and transportation modes can be designed and installed to give rise to functional cities. In this regard, careful examination of the steps and processes

---

[5] The Malaysian Voters Union homepage gave a disheartening comment, "Good reasons why so little interests in Penang Structure Plan," on the May 28 and June 11 public forum to discuss the Penang Structure Plan which also mentioned the fact that there has only been one local plan passed ever in the state. See <www.malvu.org/malvu/index.php/pictures/1853>

[6] Quotes from Goh Ban Lee (May 10 2005) "Residents should have their say," See <www.sun2surf.com/article.cfm?id=8949>

involved in structure planning would show that the draft structure plan will require two sets of inputs: i) the report of surveys and ii) statements of publicity and public participation. The mechanism for the first set of input has been activated with the publication of Penang Structure Plan (2005-2020) report of surveys and a public exhibition has been placed. The mechanism for the second part appears to be missing. Town planning officials involved in the construction of the structure plan were largely absent at the May 28 and June 11 forums other than an hour-long briefing by the State Director of the Town and Country Planning Department on May 28. This fact and the low turnout at both forums suggest that the much needed feedback that goes towards drafting policy statements that make up the draft structure plan might not likely be obtained.

This is only the initial phase of public participation, because public participation and public debate will be needed again during the draft structure plan phase. One might suggest it wiser to get more public consensus early in the game before the drafting phase so that more palatable proposals go into the draft structure plan than for guessing at public choices only to discover at much later forums that public opinions go exactly in the opposite direction.

Public participation in environmental impact assessment and structure plans compared

When the Environmental Quality Order was passed in 1987 it became a mandatory requirement for nineteen categories of development activities to submit environmental impact assessment reports (EIAs) to the Department of Environment before construction works begin. Interestingly when the order was passed, public participation was built into the EIA review process. A press announcement would be made by the Department of Environment indicating various public locations where the EIA report could be obtained for public inspection and comments are invited from members of the public over a window period. There have been cases (and perhaps the Penang Hill EIA was the most publicized) of projects denied approval as a result of public debate. However, the distinction must be made that many EIAs are for private development in which case, unless special circumstances are involved, the government has no hesitancy in denying such projects. The private project proponents are not part of government. In the case of structure plans, public discontent when leveled is targeted at the government and consequently instead of bowing to public pressure the easier option has been to use the powers of authority to push structure plans through.

Court of Appeals

The setting up of an appeals board in each state is provided for under the Town and Country Planning Act to rule on dissatisfied or aggrieved parties due to town planning. The Appeals Board, a tribunal chaired by an appointee with legal background (not a necessity for non-chairing appointees), has the authority of a court of law under section 36(14) of Act 172, including the powers to examine witnesses as well as subpoena relevant documents and materials. Decisions made are final and will not be subordinated by the civil court although such decisions are not immune to judicial review if they are found to have contravened existing laws. The Assistant Director of the State Town and Country Planning Department acts as the registrar to the Appeals Board through whom appeals are filed.

Although the appeals board has heard and ruled on many cases pertaining to development plans, the cases have typically been civil disputes between aggrieved parties and private developers of specific projects. It remains vague as to whether the process of structure planning comes under the purview of the court of appeals, because it is popular opinion that even though public hearings are mandated requirements within the structure plan process, the final decision lies with the State without obligations to consider or adopt views from the public.

The structure plan as a social contract

Planning policies are meant to protect social interests as they form a legal instrument of enforcement for preventing undesirable private developments. But such an instrument cuts the other way as well – it makes it incumbent on the government to act in the public interest in a more transparent manner. Structure plan policies if properly drafted reveal the developmental rules clearly thus keeping public decisions within the legal confines of such rules.

Social interest is a collection of preferred choices over different developmental options. Knowing what such choices are clearly requires a bottom up approach to planning rather than top down. And here, understandably, there are reasons for apprehension among concerned citizens. It has often been expressed in various public forums, and perhaps even documentation to the effect, that the ambition of the Town and Country Planning Department is to produce a consistent and cohesive unification of all local, structure and regional plans that will produce a physical landscape resembling what is being referred to as the National Spatial Plan.[7] Work is being done centrally, i.e., top down, to produce such a national plan to be completed sometime within the time frame of the Eighth Malaysia Plan. Consequently, legislation is now in place for a such a hierarchical design under the 2001 Town and Country Planning (Amendment Act) Act A1129 that provides for a national spatial plan and state development plans.[8]

While the ability to add up from the micro to form a consistent macro would serve to epitomise the skills and professionalism of the country's town planners one must not forget that the ability to achieve this often requires some degree of forcing the individual pieces of the national jigsaw to fit one another. Every piece must play along with the same tune so to speak. Harmony in design is achieved yes, but is this the final aim of town planning? Is this the preferred social choice?

Conclusions

It can be gathered that laws, procedures and participants of structure planning is multifaceted and complex. Have current practices been only a cursory gloss over of the various planning steps? Or should we instead traverse the terrain to arrive at the structure plan by making every step count?

By definition, a structure plan is a draft statement of town planning type development policies that has been publicly endorsed (accepted). The draft policies void of public inputs do not constitute the structure plan. For this reason the structure plan process is not simply for town planners to wait for public comments and go ahead when there is none but to actively seek such public comments – practically for every facet of the plan. The simple reason, that perhaps sprang from the wisdom of those who conceived such an approach to town planning, is that the professional town planner is a design specialist. But like the tailor, he or she has to know what the customer wants before a comfortable, pleasing and functional attire can be sewn and worn. Naturally, as lay people, communicating our taste and preference to the specialist is fraught with difficulty but nevertheless the artful designer will always find ways to extract the needed information from you. Why? Because the designer wants you to be happy and that he or she had a hand in having brought you that satisfaction. Town planners might want to learn a little bit about this from the tailor. ***§ Dr. Chan Huan Chiang***

---

[7] *See "National Plan Good Omen for Next Millennium" New Straits Times, 4 December, 1999 (Page 29); "A Master Map of Malaysia: Details Areas Which Can Be Develop, Environs-Sensitive Regions" New Straits Times, 5 November, 1999 (Page 7)*
[8] *Previous amendments to the original 1976 Town and Country Planning Act (Act 172) are the 1993 Town and Country Planning (Amendment) Act A866 and the 1995 Town and Country Planning (Amendment) Act A933.*

FORUM

The article below is the 6th part of Prof. Dr Suresh Narayanan's series of articles on the Goods and Services Tax (GST) which is scheduled to be implemented in Malaysia in 2007. As the GST will affect each and every one of us, we invite you to put forward your comments via email at seripg@tm.net.my so that they can be taken cognizance of by the policy makers. Please note that the views reflected in this article represent the personal views of the writer and do not necessarily reflect the views of SERI.

THE GOODS AND SERVICES TAX (GST) AND THE RETAIL SERVICE TAX (RST): An Assessment in the Malaysian Context

PENANG ECONOMIC MONTHLY

By Prof. Dr. Suresh Narayanan

Introduction

In the past two issues, we presented a general review of the relative strengths of two forms of taxes on consumption: the value added tax or VAT and the retail service tax (RST). Since the goods and services tax proposed for Malaysia is essentially a value added tax, the review may help readers understand why the government opted for the GST rather than an RST.

To recapitulate, the primary strengths of the RST pertain to familiarity, administrative simplicity and lower compliance costs. In contrast, the administratively complex VAT helps minimise the erosion of the tax base, minimise revenue losses and provides perfect tax relief to exports. It is also more efficient in taxing services than the RST and is capable of supporting higher tax rates (if necessary).

In this issue, we will make an assessment as to which tax might be better in the Malaysian context and explain our reasons for the decision.

RST or VAT? An Assessment

Clearly there is very little to choose between the RST and the VAT at a conceptual level. The difference between the VAT and the RST lies in their operational form. Operationally, the VAT may have an edge over the RST in several important areas. Within the Malaysian context, the following have special appeal.

The VAT has at least two inherent characteristics that help to reduce evasion and minimise revenue losses. The most publicised feature of the widely used credit method of assessing the VAT is the self –checking mechanism outlined in a previous issue. This feature is attractive, although its actual record in combating evasion has been mixed. There is evidence to indicate that while this feature enhances compliance within a well-devised tax system run by an efficient administration, it cannot ensure compliance on its own. Italy is a vivid demonstration of the failure of the so–called self-policing mechanism in an environment characterized by a complex tax structure and poor administration. In Malaysia, given the general efficiency and integrity of tax administration, the self-policing mechanism can be an asset. If nothing else, it has a useful psychological role to fulfill.

The VAT's many collection points, as opposed to the single collection point of the RST, also reduces the possibility of evasion. Furthermore, whereas evasion on the part of the final seller results in the loss of all revenue under the RST, it will result in only a partial loss of revenue under the VAT. Again, this feature assumes added importance in Malaysia where the propensity to evade taxes, in general, is somewhat higher than in developed economies like the US or the United Kingdom. When the VAT is eventually extended to the retail level, the numerous smaller retail outlets drawn into the VAT net may be difficult to police effectively; this in-built feature is therefore an important safeguard against substantial revenue loss.

On the other hand, if administrative constraints necessitate the exclusion of small retail outlets through the establishment of a sales threshold, the revenue loss from such exclusions would also be smaller under the VAT than under the RST.

Researchers who have studied the operation of the VAT and RST in Europe concluded that the VAT is a more robust form of consumption tax; its administrative integrity is easier to maintain as the demands on the inherent structural and technical capacity of the tax administration are increased in response to the need for more revenue.

The VAT in practice has also demonstrated its ability to eliminate the tax on inputs, in particular capital goods, far more successfully than the RST. This has implications for both domestically produced goods relative to imports, and exports. It is widely accepted that the Malaysian sales tax, despite its commitment not to tax intermediate products, does not wholly succeed in doing so. Thus, imports with no local intermediate inputs are enjoying an advantage over domestically produced goods that are subject to some multiple- taxation (arising from some remaining taxes on inputs). In the case of exports, although it is generally acknowledged that Malaysian exports are largely free from multiple-taxation even under the prevailing sales tax structure, this feature of the VAT is reassuring for a small open economy so heavily dependent on exports. Any element of multiple-taxation will raise the export price beyond the world norm and lead to reduced export production and export incomes.

The point was made in the previous issue that the VAT handles services better than the RST, and this appears to be borne out in practice; more services are taxed under the former than the latter. And, at least in the case of enterprises providing services as inputs, there is a strong incentive to ensure inclusion within the VAT rather than exemption. As explained before, non–inclusion of an intermediate producer disadvantages his client; the clients may then seek other producers who are within the VAT system. No such incentive exists under the RST. Both these characteristics assume relevance within the Malaysian setting because the VAT will probably replace the existing service tax, and go considerably beyond its current narrow base. It is also pertinent to add that the services sector has been expanding very rapidly in the recent past.

The next consideration is a mixed one; the credit method VAT is better able to adapt to multiple rates than the RST. As demonstrated previously, multiple rates imposed on the final product are independent of the rates imposed on the inputs that went into them. Thus if some firms used the highly taxed product as an input, they are not disadvantaged relative to another that uses the mildly taxed commodity. The tax rates on inputs are ‘washed out’ along the credit trail, making only the tax rate on the final product relevant. While this does not constitute a case for using multiple rates, the features offers flexibility if political or other considerations demand a concession on the rate issue. The pressures for multiple rates in Malaysia cannot be ignored and this feature ensures that giving in on this account does not mean giving up the VAT as a whole.

Conclusion

On balance, therefore, the VAT appears to have an edge over the RST in the Malaysian case.

In the next issue we turn our attention to the economic effects of the VAT—in particular, its effects on the price level, on consumers of different income levels, and its impact on exports.

European Central Bank Keeps Rate Steady, May Cut Rates in the Future
June 3, 2005, OSK Research
European Central Bank (ECB) kept its benchmark interest rate at 2 percent for 25 months as growth momentum slowed down. This is in line with expectations as none of the 40 economists surveyed expected any change in key rate. Growth forecast was also reduced from 1.6 percent to 1.4 percent for 2005 and from 2.1 percent to 2.0 percent for 2006. Inflation was expected to rise to 2.0 percent this year before trending down to 1.5 percent in 2006. The Bank declined to comment on any possibility of interest rate cut in the future, spurring hope that rates may come down if the economy weakens further.

Can This Union Be Saved?
Jun 6, 2005, The Economist
On May 29, exit polls showed that France had voted to reject the EU constitution by 55-45 percent and on June 1, the Dutch voted still more strongly against the constitution—62 percent said *nee*, on a stronger-than-expected turnout of 62.8 percent. However, Jean-Claude Juncker, prime minister of Luxembourg and current president of the EU, insisted that the constitution was not dead, and that ratification must continue. As criticism of the euro grows louder, there are fears that monetary union, too, might be in peril. The ECB has left interest rates at 2 percent for two years now, and despite slow or negative growth in its three biggest economies, has been talking of a rate increase later in the year. In its latest economic outlook, released in late May, the OECD called on the ECB to lower interest rates.

There are ways to mitigate imbalances within big currency areas, such as having federal programmes to act as automatic fiscal stabilisers, siphoning off tax revenues from booming areas and transferring them to ailing regions as unemployment insurance or health benefits for the poor as well as having a flexible labour market. The lack of adjustment mechanisms, language and cultural barriers—not to mention wide differences in social insurance and retirement programmes—encourage workers to stay in their own country, no matter how bad the economy, are some of the impediments to an Europe convergence.

Greenspan Says US Economy On Reasonably Firm Ground
June 10, 2005, The Star
Federal Reserve Chairman Alan Greenspan said that the U.S. economy seems to be on a "reasonably firm footing" with inflation under control, in an extensive remark on the state of the economy. Greenspan's generally upbeat assessment of the economy provided support for the view that the Fed, which has raised interest rates eight times over the past year, planned to continue nudging rates higher at a gradual pace. Greenspan offered no specifics on how the Fed will handle interest rates going forward but he did give a generally upbeat assessment of the economy's performance. He added that overall economic growth, despite fluctuations largely due to the rise and fall in energy prices, has grown at a healthy pace of 3.7 percent over the past year, helping to push the unemployment rate down to 5.1 percent in May, the lowest level since September 2001.

However, the divergence between short-term and long-term rates cannot be accounted for - the 10-year Treasury note is now around 4 percent, down from 4.8 percent when the Fed started raising short-term rates in late June 2004. Since that time, the funds rate has been pushed from a 46-year low of 1 percent to the current level of 3 percent. Normally, the Fed is able to control inflation pressures by pushing up short-term interest rates, which it controls, and having those increases reflected in higher long-term rates, which are set by financial markets. But with long-term rates falling, the Fed's ability to slow the economy to control inflation is lessened. In fact, the drop in long-term rates has fueled a boom in home sales and increases in home prices. But Greenspan repeated his view that he doesn't believe there is a national housing bubble.

China Prepares Concession To Textile Trading Partners

June 15, 2005 AWSJ

China will be announcing a new quota allocation system on garment exports industry, after much backlash from the US and Europe due to the unexpected jump in exports after the lifting of global trade restrictions. The new system, which would determine how much individual Chinese companies get to sell to European markets, is linked to the Sino-European agreement that limits the growth of certain Chinese clothing exports to those markets. There will be a similar agreement in coming Sino-US negotiations. According to EU figures, Chinese imports of T-shirts rose by 187 percent in the first four months of 2005, compared to the same period last year, while flax yarn imports rose by 56 percent. The EU will restrict imports of flax yarn and T-shirts to no greater than 7.5 percent above the amount entering its market between March 2004 and February 2005. Last month, China had announced a sharp increase in export tariffs in an effort to avert a trade war with the United States and Europe.

OPEC to Pump Crude at Full Steam

June 16, 2005, AWSJ

Organization of Petroleum Exporting Countries (OPEC) has decided to boost its formal oil-output quota and authorize the president to seek another increase if prices do not moderate. Oil prices rose to more than $56 a barrel on June 15, 2005. OPEC will call for another 500,000 barrel a day increase in the ceiling if prices do not fall below $50 a barrel for a basket of OPEC crudes between now and Sept 19. The cartel pumping capacity of 32 million barrels a day is rising and will reach some 33 million barrels a day by end of the year. Demand this winter is expected to be some 30.5 million barrels a day. In addition, OPEC members are also seeking to increase their refining capacity.

Crude Smashes Record $60 Per Barrel

June 27, 2005, AP

The price of crude broke through the psychologically important US$60 a barrel threshold as concerns mounted that supply would not meet demand, especially in the US, the world's largest energy consumer. Other petroleum products also followed crude's rise. Oil prices are more than 60 percent higher compared to a year ago, but would still have to surpass US$90 to breach the all-time, inflation-adjusted high set 25 years ago. Much of the worry surrounding crude is demand-driven speculation, and it primarily surrounds how much supply there is currently and how much spare there is in the event of a production glitch. With demand expected to average 84 million barrels a day in 2005, there is not enough of a supply cushion to shield the market from any prolonged output disruption. Another reason for trepidation among traders is the limited refining capacity in the US, which is increasingly reliant on imports of gasoline.

SERI is constantly striving to make the Penang Economic Monthly a beneficial and informative publication to everyone. Thus, we appreciate comments and feedback to help us improve on our forthcoming publications. Please send your views and suggestions to us at:

seripg@tm.net.my

Published by SERI for the
Penang State Government.
This publication can be downloaded
from http://www.seri.com.my