

Oil and the Malaysian Economy: Will Structural Changes Be Needed?

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Introduction

In today's scenario of high oil prices, two basic questions emerge. To individual citizens, the question is how much out of the family's total expenditure has to go into paying for the cost of oil? Collectively, as a nation, the question is how much spending on oil need there be in relation to the gross domestic output or GDP? Needless to say, oil prices, like the prices of other commodities, are fairly volatile whereas people's lifestyles and economic production take on more steady paths through time. Thus if there are little or no structural changes to lifestyles and methods of production, the violent cyclical changes in oil prices will likely affect production and consumption more directly, in turn producing cyclical swings in the GDP. The economy goes up and down as expected always. No problems there.

But the current dramatic spate of oil price hikes is beckoning us to also ask whether oil prices are in fact undergoing a structural change. If so, oil as an element of our lifestyle as well as oil as an input into economic production will also have to respond to structural changes by way of substitution, higher energy efficiency and better fuel economy. The issue at hand is whether government policy should or should not swing into action to bring about the corresponding structural changes to consumption and production or elect instead to moderate the temporary mismatch between oil prices and demand and help people and businesses to weather it out. Since implementation of government policy is not without costs, making the right choice between the two becomes critically important if economic growth is to be sustained.

Oil and the economy

Past episodes of oil crisis have wielded painful effects on the economy, both at home and abroad. With the world's economy of late being very fragile, oil prices going up and up can only be perceived as yet another threat to the economy. Fortunately, the effects of current oil prices have not yet shown up in the numbers for the world's economy – GDP is still rising and inflation fairly moderated.

Several possible reasons have been suggested.¹ First, while prices have gone up by as much currently compared to previous episodes, it had taken eighteen months, that is more gradually, instead of an oil shock within a short-space of six months as recorded previously. Second, taken in real terms, the current price hike would be smaller than in the past. The same amount of dollar hike in oil price makes up a smaller part of today's economy compared to the size of the economy

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¹ See "Oil and the global economy: counting the cost" *The Economist*, Aug. 27 2005.

twenty-five years ago. Third, the technological link between oil and the economy (the oil content in the GDP) is no longer the same. Previously, production was largely on the factory floor and required substantial energy input. Today, more and more of production comes from value-added activities like design, marketing, and services allowing for higher GDP levels without a proportional increase in energy inputs. Another possible factor that comes into play in the relationship between oil and the economy is that prevailing interest rates are comparatively lower, which in turn gives a boost to the economy, driving up growth and hence the demand and, in turn, the price for oil. On the other hand, previous price hikes were caused by supply shocks. The demand driven price rise for oil is also aggravated by much more intense commodity market movements brought about by a much wider variety of market derivative products that are available today compared to the past.

Structural implications

The foregoing comparisons between today's hikes in oil prices compared to previous oil shocks suggest that there have indeed been structural changes occurring between oil inputs and economic production in the world. Given that there is the potential for milking growth in the economy from value-added factors other than oil, then oil prices should, on the contrary, fall instead of rise as presently observed. Is it, therefore, true that oil prices are behaving the way it is due to speculative market forces responding to contemporary geopolitical developments punctured with unanticipated natural catastrophes like the one brought by the hurricane, Katrina? If it is, then oil prices will not keep surging. Manu Bhaskaran wrote in *The Edge*² saying that oil prices respond to supply and demand effects, speculative forces and a political premium. He observed that there is little evidence of a supply demand mismatch and thus prices should soon begin to fall. Since speculative prices do not prolong, the real issue behind the current high price of oil must be political, although this is harder to quantify.

So back to our question concerning whether or not government policy has a role to play in inducing structural changes to the relationship between oil and the economy.

Consumption

In cold countries, oil plays a big part in keeping people warm during the cold winter months. Approaching the northern winter during the next few months then, demand pressures might be expected to aggravate further. In Malaysia, oil demand is more connected with electricity consumption at home. Hot weather and frequent episodes of haze would have led to increased use of air-conditioning, pushing up energy consumption. However, considering that oil subsidies on power generation are much more generous than for petrol, it is perhaps the cost of private transportation that forms the critical link between oil prices and household expenditure in Malaysia. Public transportation, outside of the Klang Valley is virtually non-existent. Buses do take people from town to town (this being largely an elective form of travel) but bus services that take you to work (transport that is needed daily) are in a dire state – they are not comfortable and they do not run on schedule. In some cases, factories arrange vans and factory buses for daily shuttling of workers between home and workplace but the majority of workers have to depend on personal transport.

² Oil prices won't keep surging", *The Edge*, August 29, 2005.

**...the real issue
behind the current
high price of oil
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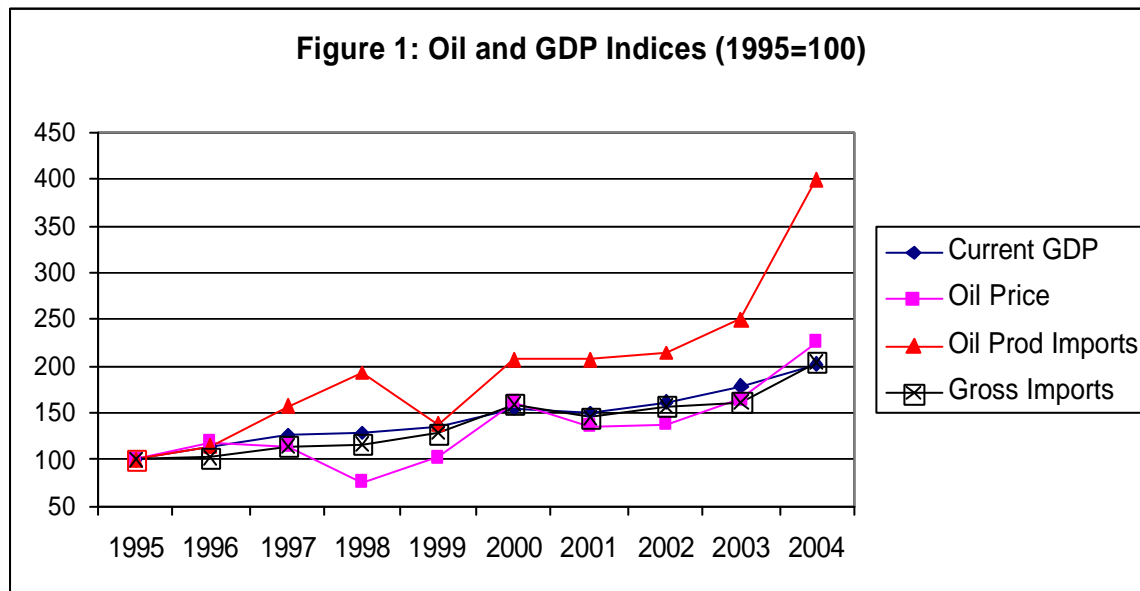
It is here that the issue of petrol subsidies becomes a moot point. Cars are already expensive household owned items, because of the high import duties soon to be replaced by excise duties, which are just as costly. The government sees such duties as an important revenue source paid for by those who can afford better and also as a means to reduce demand for cars in relation to road capacities in order to mitigate against traffic jams. But in the eyes of the consumer, surging oil prices instead translate into increased financial burdens resulting from the need to transport oneself to and from work. As a result, the government finds itself in a dilemma, whether to help ease this personal transport burden on the one hand, or on the other to optimize road pricing so that a better balance can be achieved between the budget constraints of petrol subsidies and the volume of road traffic.

...in the eyes of the consumer, surging oil prices ... translate into increased financial burdens...



How much will petrol prices rise for the consumer before a noticeable shift in consumption behaviour begins to take place? Consumers are naturally incentive oriented and respond readily to circumstances that arise out of government policies and strategies. The national car industry that will soon become more circumspective under the national automobile policy, property and highway development under the national spatial plan and financial facilities such as loan growth targets set for banking institutions as well as the introduction of the real estate investment trust all help to shape personal consumption choices. The trend that is emerging is off city living where larger housing for lower prices could be purchased enabling more even population distribution and helping to reduce crowding in the inner cities and offering better scope for redevelopment there. Unfortunately, this trend also means higher petrol consumption. Higher petrol prices are a well-perceived disincentive for long commutes to work.

Economic production



Source: Bank Negara Malaysia

While reports tell us that the oil content of GDP has become much reduced compared to previous oil crises, these reports also mention that many developing economies, including huge ones like China and India are heavy oil consumers. What about Malaysia? Services today make up 55% of Malaysia's GDP thus putting the country into the tertiary economy category having moved from the primary (resource based) stage, at the time of Independence, and through the secondary (industry based) stage, during the seventies and eighties. Despite this,

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high oil prices have not allowed Malaysia to rid the oil content from its GDP. Figure 1 shows comparative indices for Malaysia's GDP (in current dollars), oil prices, oil product imports (fuel, lubricants, processed motor spirits) and gross imports (across all sectors) over the past decade. For the oil content in the GDP to be reduced over time, the expansion (i.e. the slope) of the cost of oil product imports must be less steep than the GDP. This is not the case here. It, however, does not mean that Malaysia is using more and more oil in its GDP, at least not recently, because it can be observed, on the chart, that the shape of the oil product import index is similar to the shape of the oil price index. In other words, the cost of oil imports is due to higher oil prices and not higher consumption of oil products.

The oil product import index appears higher than the oil prices index on the chart because during the sharp fall in oil prices at about the time of the East Asian financial crisis, there was a surge of oil product imports taking advantage of lower prices, but when oil prices rose just as sharply as it fell, imports also fell correspondingly but not by as much. The index for gross imports, on the other hand, being a component of the GDP tracks more closely with the GDP index as would be expected. The gross import index meanders, somewhat affected by oil product imports included within as an import component.

Structural change and government policy

There is a sobering message in the foregoing discussion. Yes, as strategised, Malaysia's economic progress is on-stream moving from one stage to the next. Having moved into the tertiary stage of production, it is brainpower that would be called to drive the country's economy. Still, oil prices, not only the current spate of price rise, but their effects over the past decade as well, has been shown to be closely linked to Malaysia's economy. What must the government do?

If the national spatial plan, the proposed design of the metropolitan region revealed by the various structure plans across the country, the implied policy about where the construction industry would next build and how these are to be financed by the country's capital markets stay their course, then, certainly, public transportation infrastructure must be the missing ingredient within this mixture – outside of the Klang Valley that is. During the Finance Minister's speech last year, he mentioned the government's commitment to a public delivery system and that the integrated transport system in the Klang Valley would be an example. Today, the infrastructure is already in place and the authorities are ironing out the kinks in creating better linkages between different parts of the transportation system. Perhaps it is now time to start another similar system elsewhere in the country.

The Klang Valley system does not involve stage buses in between, unlike Singapore where transit systems, buses and taxis integrate into one system. Elsewhere in Malaysia, an integrated public transport system would likely involve bussing as well, because less modern cities would have locations which are difficult to draw a transit line through. In Penang, the recent discovery of once-upon-a-time tram rail in the heart of the city might also suggest a revival of such a form of inner city transport. There is nostalgia to trams that a city like San Francisco still runs to this day and it is also a tourist attraction. Adelaide in Australia (Georgetown's sister-city), I am told, has an inner city tram system, which is quite unique.

Conclusion

Surging oil prices is always an issue of concern. Fortunately, this time round, it need not be as fearful, because reports tell us that oil is not as much needed for economic growth. Furthermore, as an energy resource, it has long been claimed that it was relatively cheap oil that became the disincentive preventing substitutes from being developed for transportation and for power generation. Technology today has become very advanced, shortening the time-to-market for new inventions. In the U.S., cars with hybrid engines are now popular among buyers even though prices remained high compared to the same model car powered by a conventional engine. With higher demand and larger volumes the price differential will narrow.

In Malaysia too, it is also time to think about human-resource development to expand the services economy. There is a need for more value-added activities like what the manufacturing-plus-plus model says in the Industrial Master Plan. Malaysia should prioritise software development over hardware development, because it requires comparatively lower capital investments. Since modern gadgets today needs software to drive them, software has virtually no market limit. And, not to forget the Prime Minister's call for higher levels of public delivery, more people power instead of oil has to go into producing the GDP – not merely in terms of numbers but, more importantly, by higher professionalism. From the guy who sweeps the factory floor up to the CEO, both doing different things but equally important ones and should be accorded the same status. That is how to reduce the oil content from the GDP. **§ Dr. Chan Huan Chiang**



Penang Quarterly GRP Report

Table 1: Penang: Economic Indicators

	2001	2002	2003	2004	2005 (Q1)	2005 (2Q)
GRP (RM million)	16,773	17,501	18,788	20,032	5,239	5,230
GRP (percentage growth y-o-y)	-2.5	4.3	4.2	6.6	5.9	4.4
<i>Agriculture</i>	17.6	3.6	3.4	4.5	3.8	0.4
<i>Mining</i>	5.9	-3.1	-4.6	-7.4	-5.6	-2.5
<i>Manufacturing</i>	-11.9	4.5	4.1	9.6	6.3	4.8
<i>Construction</i>	-3.1	-8.8	3.3	-11.1	-8.5	-1.4
<i>Services</i>	5.4	5.0	4.5	5.4	6.5	4.5
Total Capital Investment (RM million)	3,837	2,398	1,923	2,030	341	468
Domestic Investment (RM million)	260	411	467	1,014	208	166
Foreign Investment (RM million)	3,578	1,987	1,456	1,016	133	302
Registration of New Motor Vehicles (percentage growth y-o-y)	-0.1	-0.7	12.1	18.8	3.7	5.2
Estimated Tourist Arrivals (percentage growth y-o-y)	-8.3	-1.3	-11.6	16.2*	-27.5*	-16.4*
Average Hotel Occupancy Rate (percentage)	54.8%	53.9%	49.8%	60.2%*	-7.9*	-3.4*

Source: SERI; MIDA; Department of Statistics, Malaysia; DCT Consultancy Services; Road Transport Department, Malaysia; Bank Negara Malaysia

* Preliminary Figures

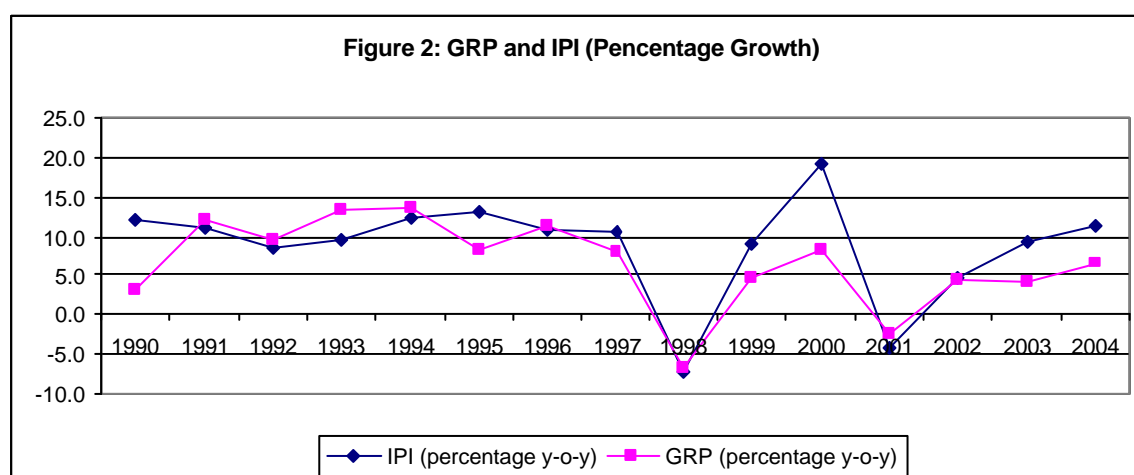
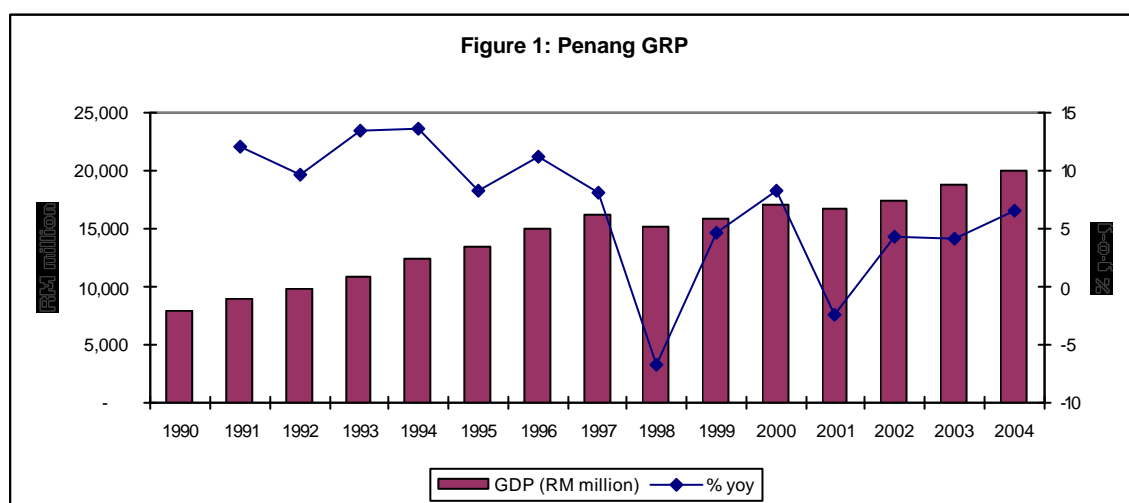


Table 2: Malaysia: Economic Indicators

	2001	2002	2003	2004	2005 (Q1)	2005 (2Q)
GDP (percentage y-o-y)	0.3	4.4	5.4	7.1	5.8	4.1
CPI (percentage y-o-y)	1.4	1.8	1.2	1.4	2.6 ^a	3.1 ^b
IPI (index)	180.4	188.8	206.3	229.6	236.9 ^c	243.8 ^d

Source: BNM-Monthly Statistical Bulletin

^a CPI in March.

^b CPI in May.

^c IPI in March.

^d IPI in May.

For Quarter 2 2005:

- Penang achieved gross regional product (GRP) of 4.4 percent y-o-y.
- The main driver of growth is the improved performance of the manufacturing sector. Manufacturing production increased as inventory build-up has been cleared in Q105.
- The manufacturing sector in Penang expanded by 4.8 percent, with the E&E sector as the main contributor.
- Approved manufacturing investments recorded healthy growth of 46.5 percent y-o-y, with both domestic and foreign investments achieving an increase of 99.2 percent and 27.9 percent respectively. The bulk of this quarter's approved investments are from the electronic and electrical industry (more than 60 percent) and the machinery manufacturing industry.
- Exports rose by 9.4 percent y-o-y while import growth stands at 5.4 percent. Despite hitting a near 10.0 percent growth rate, the rate of growth has been lower in Q205 than of Q105 due to softening external demand.
- Total production of agriculture, hunting, forestry and fishing remained relatively unchanged. The production of crude palm oil recorded an increased of 6.5 percent. However, CPO prices have fallen from an average of RM1,799 per metric tonne for Q204 to RM1,408 per metric tonne metric in Q205, translating to a 16.0 percent decline in the value of the total production. Production of livestock and dairy products were at a near constant while the total value of the aquaculture production fell 15.8% due to a massive shrinkage in the production from the brackishwater cages. There were no paddy harvests in Q2 according to IADP.
- The construction sector recorded a smaller decline in growth this time round compared to the previous quarter, on the back of sturdy growth in the property sub-sector.
- According to Retail Group Malaysia, retail sales in Q2 surprised on the upside with a 10.2 percent growth, more than twice the 4.8 percent recorded in the Q1. However, the growth was lower than that in the same quarter in 2004, during which sales expanded 15.1 percent.
- Preliminary data show that both hotel occupancy rates and the number of visitors to Penang have plunged quite sharply in Q205 compared to Q204. Despite this, the good news is that the tourism sector has been picking up steadily after the tsunami as both the number of visitors and hotel occupancy rates were higher in Q205 than in Q105.
- New motor vehicle registration has risen by 5.2 percent y-o-y and 3.7 q-o-q. This is surprising given factors like the climbing CPI, increasing petrol prices and the possibility of a global economic slowdown.



Penang achieved gross regional product (GRP) of 4.4 percent y-o-y in Q205.

In conclusion, the Q2 2005 GRP growth for Penang which stands at 4.1 percent reflects steady economic growth. Looking forward the outlook for Penang performance is positive barring any negative external shocks and natural disasters. An important factor to watch out for would be the current tightening monetary policy stance of most of our major trading partners. An increased interest rate scenario would lead to a further softening in external demand and hence affect the production output of the manufacturing sector. An interesting point to note is the high correlation between the Industrial Production Index (IPI) and the GRP of Penang as shown in Figure 2 above. **§ El'millian Chew, Tan Yin Hooi & Poh Heem Heem**

FORUM

The article below is the 8th 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.

IMPACT OF THE GST ON INCOME DISTRIBUTION

By Prof. Dr. Suresh Narayanan

Introduction

In a previous article, we looked at the impact of the proposed Goods and Services Tax (GST) on the price level. It was concluded that experiences in other countries suggest that the GST (known generically as a value added tax or VAT) is likely to have a one-time impact in raising the general price level and was unlikely to trigger a persistent increase in prices (or inflation). Nevertheless, even this one time increase in general prices can seriously erode the real incomes of poorer households. It was argued, therefore, that carefully planned auxiliary measures must follow the introduction of the VAT to minimize the negative impact on the poor.

Is the GST Regressive?

In this article, we turn to another important concern regarding a broad based consumption tax like the VAT: the question of regressivity. A tax is considered regressive if it extracts a bigger proportion of the incomes of the poor in revenue than it does from the incomes of the rich. Or more simply, if the proportion of income paid in taxes falls as the income rises, the tax is considered regressive in the sense that it imposes a greater burden on the lower income groups.

Given this definition, all consumption-based taxes, including the VAT, is regressive since consumption as a proportion of income is negatively correlated with income. However, the VAT has drawn more criticism on this score, than the sale taxes it replaced, in many countries. At least two factors may explain this difference in reaction. First, a VAT is often introduced on a far broader base than a limited sales tax or import tax that it replaces. This makes its impact pervasive and widely felt, invoking a stronger feeling against it. Second, there is a perception that while the VAT captures everyday consumption goods, it tends to exclude (for various reasons) sophisticated services (such as finance and insurance) largely consumed by the rich.

In reality, the VAT is not likely to be any more regressive than some other consumption-based tax imposed on an identical base. However, invariably the base of the VAT will be wider than the consumption tax it replaces.

Empirical evidence suggests that a VAT is likely to be regressive or at best proportional, unless conscious efforts are made to ameliorate this effect. For example, despite Dutch attempts to design a VAT that would leave income distribution unchanged, it turned out to be 'roughly proportional' and adjustments to the tax base eventually worsened the income distribution. Measured relative to

income, the VAT also worsened income distribution in South Korea, France and Chile. Only in the UK was the tax clearly progressive, but it was achieved via zero-rating sectors such as food, children's clothing and housing, which not only eroded the base but increased the complexity of administering the tax.

Several counter-arguments in the literature seek to put this regressivity in perspective, but their applicability to developing countries is open to debate. One argument suggests that while the proportion of income consumed indeed declines with income when annual income data is used, it is not an accurate reflection of the real position because of the effect of changes in transitory income that complicate the picture. It is suggested that in the cross-section studies (such as annual household surveys), the ratio of consumption to income of the lowest income in brackets is overstated because it captures the higher consumption of some higher income households that were experiencing a temporary decline in their income. In an analogous fashion, the consumption-to-income ratio of higher income households tend to be understated because of the inclusion of the lower consumption of groups who enjoyed only a transitory increase in their incomes. Consequently, the decline in consumption with respect to income is exaggerated.



Another point made is that it is meaningless to talk of the regressivity of a VAT in isolation, and instead, it should be compared with any alternative tax that is being considered to raise a given revenue. For example, in the US, the VAT was evaluated in relation to an equal-yield income tax. But such comparisons may be less useful in Malaysia where neither the base or rates of the individual income tax can be changed sufficiently to generate a revenue equal to a broad based VAT.

A more relevant comparison would be to consider the effects of replacing the existing sales tax with the VAT of identical yield. As stated before, there is no reason to expect that if the base were identical, the limited VAT would be any worse than the sales tax in place. But this overlooks the fact that the purpose of the VAT in many developing countries, and certainly in Malaysia, is not to be revenue neutral. Indeed the need for revenue is the strongest argument for VAT to replace the current sales tax and this implies a broader sales tax. Broadening the base to include more previously untaxed items widens consumption taxation and increases the danger of regressivity, especially since administrative difficulties necessitate the exclusion or exemption of the more sophisticated service sectors.

Some take the position that even if the VAT may be regressive it cannot be evaluated on its own but should be considered as part of an overall tax system that is pro-poor. This holds true in countries with well-established broad based income tax regimes. In Malaysia the scope for the personal income tax to be a major redistributor of income is limited. Even if the taxes at the legislated progressive rates are collected, only a small proportion of the employed population falls within the tax liable categories and the majority of the poor lie outside the tax net.

In Malaysia only about 13 percent of the employed was liable for income tax. Receipts from personal and corporate tax accounted for 2 and 4 percent of the GNP, respectively. Besides, the budget proposals of the last few years have further diluted its coverage by lowering the tax rate and increasing exemptions. Unfortunately, this leaves few other tax handles to bring about this redistribution in Malaysia although fuel taxes, taxes on resource rents and a well designed property tax may have a positive impact on equity.

Addressing the Regressivity of the VAT

All this suggests that the search to mitigate the impact of the VAT on income distribution must broaden its focus. If tax tools cannot be designed, or in some cases, were never meant to serve distributional ends, the expenditure side must share the burden of this task. This calls for more care and attention to be paid to the expenditure policies of government in at least two areas. First, there must be more efficient compensatory spending targeted to reach groups hardest hit by the VAT- not always easy to achieve without spillage, or corruption. And second, the need to tax must be reduced by spending each ringgit wisely.



While the last few decades have seen increasing focus on tax reform, it has not been matched by a parallel urgency in 'expenditure reform'. Doubtless, sufficient revenues are necessary to fuel well-meaning expenditures, but this result is by no means automatic. Indeed, over-zealousness in raising revenues may well wreak havoc in an economy far beyond what can be repaired by public expenditures. The early Chilean experience is an eye opener in this regard. The VAT was highly successful in generating revenue with its broad base and high rate that it was seen as almost impossible for the expenditure side to ameliorate its regressivity.

In practice, attempts can be made to reduce the regressivity but not eliminate it. Such measures include exempting or zero rating sectors likely to affect the poor. In Jamaica and Indonesia, for example, attempts were made to render the VAT distributionally neutral by exempting unprocessed foods and other basic items that feature prominently in the budget of the poor. In Malaysia, a simple exemption of unprocessed food will still leave about two-thirds of the consumption of the poorest households theoretically liable for the VAT.

More generally, as noted in a previous article, neither zero rating nor exemption will prove completely satisfactory. While both approaches erode the tax base, the former is administratively cumbersome and the latter does not relieve the commodity entirely of the tax.

There is thus no easy way to reduce the impact of a general VAT on poorer households. It is easier to ensure that goods consumed by the rich are subjected to a higher rate of tax than the standard VAT rate. This is usually done in one of two ways: the preferred alternative is to impose a separate and independent "luxury" tax on such items. This luxury tax will have no tax-credit features like the VAT. The revenue contribution of this tax will be small but it will make a uniform VAT on many previously untaxed items more politically palatable. A second alternative is to have more than one rate under the VAT regime but this will make the VAT administratively more complicated.

To conclude, we must accept that there is a conflict between the revenue-generating prowess of the tax and its unfavourable impact on income distribution. Although this conflict exists even with the current sales and excises taxes, it is less pervasive because of the small number of goods being taxed. In contrast, the VAT being a broad based tax brings the regressivity issue to the fore. Thus attempts to protect the position of poorer consumers deserve more serious attention under a VAT. Unfortunately no universally applicable solution is readily available.

FORUM

In response to the article “The Penang Structure Plan (2005-2020): Top Down or Bottom Up?” published in the June 2005 issue of the Penang Economic Monthly (PEM), we have received the following clarification and rebuttal from the Penang Town and Country Planning Department (TCPD) which we are reproducing verbatim except for certain typographic and grammatical revisions. We are grateful for the interest shown by the TCPD and hope that this exchange of views will generate further discussions on the Penang Structure Plan which will have tremendous implications for all those living and working in Penang. It was with the aim of encouraging such exchange of opinion that this “Forum” column in the PEM was initiated and we welcome further inputs from all our readers. However, the editors reserve the right not to publish articles that are considered incendiary or factually inaccurate.

TCPD’s response to the article entitled “The Penang Structure Plan (2005-2020: Top Down or Bottom Up?” in Penang Economic Monthly published by SERI, June 2005, Volume 7, Issue 6



In the June 2005 issue of Penang Economic Monthly (Volume 7, Issue 6) pages 7 to 11, was an article entitled “The Penang Structure Plan(2005-2020): Top Down or Bottom Up?” written by Dr Chan Huan Chiang. The five-page article touches on several issues concerning the development planning system and the planning machinery in Malaysia as provided for under the Town and Country Planning Act 1976 (Act 172).

The Penang State Town and Country Planning Department (TCPD) found several points raised by the writer to be incorrect. Firstly the writer stated that the recent practice of structure plan being prepared on a state-wide basis by the town and country planning department is contrary to the Town and Country Planning Act 1976 (Act 172). (See bottom of page 8 of the article.)

TCPD finds this statement to be incorrect and would like to point out that the practice of preparing state-wide structure plans is in fact in conformity with the Town and Country Planning Act 1976 (Act 172). This Act was amended in 2001 through the Town and Country Planning (Amendment) Act 2001 (Act A1129) which requires all structure plans to be prepared on a state wide-basis. This is a departure from the earlier requirement of preparing structure plans for local authority areas. The State of Penang adopted this amendment Act as of 1 October 2002.

It should be pointed out that the amendment Act introduces a hierarchy of development planning systems comprising the national physical plan covering the whole nation, the structure plan covering each State, local plan for each local planning authority area, and special area plans for sub-districts.

Secondly, the writer stated that the low turnouts at the public participation forums held in conjunction with the Report of Survey of the Penang State Structure Plan on May 28 and June 11 “suggests that the much needed feedback that goes towards drafting policy statements of the structure plans might not likely be obtained”. (See top of page 10 of the article).

TCPD would like to point out that publicity for the Report of Survey (RoS) and the subsequent Draft Structure Plan takes various forms and was carried out in several stages. Publicity for the RoS involves a month long inspection where members of the public are given the opportunity to read through the report and

submit written comments on it. The report is made available for public inspection at the office of the TCPD, the local authorities, and all district offices. In the case of publicity for the Report of Survey of the Penang Draft Structure Plan which was held from 23 April to the 24 May 2005, there were 590 visitors recorded. This figure does not take into account unregistered visitors who number up to three times to those registered.

TCPD also held public forums and dialogues to explain the content of the report and to seek views with regard to the proposed plan. There were a total of 13 such dialogues and forums, held involving a total of 594 people in attendance. In compliance with the requirements of Act 172, TCPD conducted public hearings which saw a total number of 51 written representations involving 388 issues.

The above certainly shows that there was overwhelming public response to the publicity exercise conducted by TCPD. It is expected that the number would certainly increase at the publicity stage for the draft structure plan

Thirdly the writer stated that the aim of town planning department is to create a consistent and cohesive unification of all local, structure and regional plans, and he questioned whether this approach is the preferred social choice. (See second paragraph page 11 of article).

TCPD would like to point out that the need to have a national spatial plan is imperative in order to come up with a comprehensive overview of the state of physical planning in this country. This plans forms the basis upon which the country charts out its future direction of growth. The formulation of this plan takes into account many aspects of development, including the need to carefully plan for the usage of our limited resources.

The national physical plan would also serve as a means whereby all development activities can be integrated so as to avoid unnecessary wastage and to ensure that every State gets its fair share of development. The plan also serves as a vehicle to address trans-boundary issues such as the environment and water.

At the State and local levels, development planning translates national policies into physical land-use development plans. Here every State will have a structure plan which lays down the strategy for physical development for the State. At the local level, local plans translate structure plan strategies into physical land use plans. So all these plans form an integrated system where each plan serves its own respective function and yet is linked to and supports one another.

If left to the local plans, certain macro issues might not be given sufficient attention. Furthermore, local authorities are more concerned with local development issues and less so with development which has an effect on State and national development. So town planning has never deviated from its original aim, that is to create a better living environment for every one to work, rest and play in. The only difference now is that town planning concerns have been further refined to take in a wider audience as well as to increase its depth.

Town and Country Planning Department
State of Penang
17th August 2005

INTERNATIONAL HEADLINES

Katrina May Curb Economic Growth Into 2006

September 4, 2005, AP

The physical and psychological damage caused by Hurricane Katrina in the US is likely to reverberate across the global economy in ways that will curb growth well into 2006. The IMF believes that oil prices are unlikely to return to the levels of early 2004 when they were 50 percent lower than they are today. Katrina shut down large portions of oil and gas production in the Gulf of Mexico at a time when worldwide energy output was already stretched thin and also sent fuel costs higher around the globe, squeezing consumers in Europe and Asia and hurting everyone from truckers to fishermen to airlines. In Katrina's aftermath, forecasts for U.S. economic growth in the fourth quarter have dropped from 3.5 percent on an annualized basis to 2.5 percent.



ADB Revises Asia Growth Up to 6.6 Percent

September 9, 2005, The Star

The Asian Development Bank has raised its 2005 gross domestic product (GDP) growth forecast for Asia, excluding Japan, to 6.6 percent from 6.5 percent previously, on the back of faster-than-expected expansion in China. China's economy is expected to grow 9.2 percent this year, as steps taken by the Chinese government to cool investment growth had met with some success. However, the bank's outlook for the world economy is less upbeat given a gradual growth slowdown now under way in the major industrial economies. It sees the US economy growing 3.6 percent this year, provided oil prices do not jump further and the housing market cools gently.

In its semi-annual *Asian Development Outlook*, the Manila-based bank warned that countries that were heavily reliant on oil imports would need to make the appropriate policy responses to mitigate the negative impact of expensive crude. The bank also noted several positive developments that should help sustain growth in Asia going forward, in particular the expected bottoming-out of the global electronics cycle. Furthermore, the new exchange rate regimes introduced recently in China and Malaysia offered potential for future efficiency gains and greater scope for domestic monetary control.

Chinese Textile Imports to Be Unblocked

September 12, 2005, AP

The European Commission has reached a deal with China to allow Chinese textiles to enter the European Union again, ending a trade row that had items from lingerie to pullovers pile up in customs warehouses. According to EU Trade Commissioner, Peter Mandelson, the deal was done "in a way without unfairly penalizing retailers and importers." The agreement effectively raises import limits for this year, amid growing concern that a flood of cheap Chinese goods undercuts European producers. Earlier this year, major textile producers: France, Spain and Italy pushed for restrictions to stem the rapid growth of Chinese trade. Initially, they were reluctant to bend the quota rules set in June. However, European retailers lobbied hard for the garments to be released, claiming stores would not be able to stock fall and winter clothing lines ordered from China. Chinese shipments of sweaters, trousers and other low-cost clothing have soared after a worldwide quota system expired on Jan. 1, 2005.

Asia Is Becoming More Business-Friendly

September 14, 2005, AP Press

In its annual "Doing Business" report, the World Bank ranks 155 economies worldwide on the openness of business environment, which tracks regulations on starting and operating businesses, rules for trading in goods and services and the time and cost of meeting various government requirements. It reported that developing nations across Asia are becoming more open and business-friendly in a bid to attract foreign companies, but the pace of liberalization is slower than Eastern Europe and the region still needs to cut a lot of red tape. Singapore was the runner-up globally to New Zealand, while the United States came third. Five other East Asian countries, namely Hong Kong, Japan, Thailand, Malaysia and South Korea were among the top 30. Pakistan came in 60th on this list, ahead of China and India, which were ranked 91 and 116 respectively. Vietnam ranked 99. In one surprising finding, Vietnam and Pakistan are leaders in Asia when it comes to pushing for business reforms, while China and India, which account for most foreign investment inflows into developing Asia, have been slow in removing bureaucratic hurdles.



Don't Blame the Savers

September 16, 2005, The Economist

The newly released chapter on savings and investment in the International Monetary Fund's World Economic Outlook highlighted the danger posed by the world economy's heavy dependence on ravenous American consumers to snap up exports from the rest of the world. Emerging-market economies, particularly in Asia are keeping their economic fires stoked with a steady stream of exports, especially to America. Scrimping Asian consumers are sending their money to the West because demand for capital has failed to keep up with supply in their own countries. This is perhaps also the reason why long-term interest rates have remained low even as the Federal Reserve has progressively tightened monetary policy. While economist, Ben Bernanke believes that the global imbalances are attributable to a worldwide build-up of excessive savings, the IMF said that global savings is near an historic low, having declined markedly since the late 1990s. Nevertheless, there are several remedies for the situation: higher national savings in the United States, an investment recovery in Asia, higher domestic demand and less reliance on exports in emerging countries, and an increase in real GDP growth in Japan and Europe.

Fed raises US interest rates

September 20, 2005, Reuter

Greenspan raise rates by 25 bps to 3.75 percent for the 11th time as expected and signalled more increases to come. The call was not a consensus as Fed Governor Mark Olson voted against the move to increase the rate. Nine other governors voted in favour of raising interest rates. In a statement outlining its decision, the Fed says US spending, production and employment will suffer a near-term knock from Katrina and that energy prices may be elevated and volatile. The Fed funds rate now stands at their highest level since June 2001, though market-set long-term rates remain low by historical standards. Higher energy and other costs have the potential to add to inflation pressures. However, core inflation has been relatively low in recent months and longer-term inflation expectations remain contained.

Asia Among Most Competitive Economies

September 28, 2005, AP

According to World Economic Forum in their survey of almost 11,000 business leaders in the "Global Competitiveness Report", Northern Europe and key East Asian countries are the most competitive economies in the world, retaining their hold on the top 10 position. For the third straight year, Finland was the most competitive economy, followed by the United States. The success of the Nordics is based on their very healthy macroeconomic environments and public institutions that are highly transparent and efficient, with general agreement within society on the spending priorities to be met in the government budget. Japan slipped to No. 12 from No. 9 last year as a result of poor management of its public finances, but reforms proposed by Prime Minister Junichiro Koizumi to privatize the sprawling postal service could help turn things around, the study said. China dropped for the second straight year to No. 49 from No. 44 in 2003, as the survey said it continues to suffer from institutional weaknesses which, unless addressed, are likely to slow down their ascension to the top tier of the most competitive economies in the world. India rose three places to come in just behind at No. 50. The highest ranked Asian countries, Taiwan and Singapore, have applied good governance to lift their citizens from poverty, joining the ranks of the most prosperous and competitive economies in the world. Malaysia was ranked 24th compared to 31st last year.



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