

The Budget: A Question of Social Choice

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Introduction

Although government participation in the domestic economy cannot beat the market due to the very nature of market failure that characterises public goods, the budget process is in fact a finely tuned and highly efficient piece of machinery. Work on the budget starts as early as January each year, involving a series of budget dialogues scheduled over several months when public agencies, interest groups and business communities sit down to work out who should pay for what the government deems necessary expenditure during the following year, and to what extent. Roughly speaking, the government in Malaysia asks for a quarter of the gross domestic product or GDP to fund public sector activities and about half of the amount asked for will be raised through direct or indirect taxes, in other words, from the pockets of business and private individuals residing in Malaysia.

The current direct tax rate is a 28 percent flat rate for corporations and a 20 percent flat rate for small business (companies with up to RM2.5 million of paid-up capital). Personal or direct income tax is on a progressive rate of zero for those with chargeable income below RM2,500, rising to 28 percent for marginal chargeable income in excess of RM250,000. Indirect taxes are diverse, generally referred to as customs charges, in the form of excise (taxes from production), cess (export taxes), duties (import duties) and sales and services tax.

However this is only the standard. During the budget dialogues, sectors in the economy argue their case as to why they are special and should be given some form of dispensation from their standard tax obligations. If they manage to be convincing, the dispensation comes in various forms of incentives – relieves on their business or personal incomes so that taxes are reduced. Some sectors go even further by saying that they face market failure issues and thus require public sector input, in which case financial assistance (grants and subsidies) can be obtained to help them along in the economy. Taxes and subsidies are the main preoccupation of business and private individuals at budget dialogues.

Public Sector Role in Economic Growth

From the perspective of the government, on the other hand, the budget is more than just taxes or subsidies. In the early stage of the country's development, the government used to be concerned about the lack of private investments in key economic industries, which would open up opportunities for the nation or are deemed as critical to its development strategy. Public sector involvement in the steel and automotive industries are examples. As the economy matures, private investments enter into most, if not all, production sectors, freeing the government to look elsewhere as it reflects on what its role should be in the economy.

The keyword about public sector spending is transfer payments – that is “robbing Peter to pay Paul”. The government plays the referee and decides who should get what and who should pay for it. Public education and public health are well known examples. Everyone should have access to health care and everyone must be given an education even if one cannot properly afford these. Once, only very basic of such services could be rendered. Today they have been much improved. Tomorrow, the scope of these services can be expected to be much more comprehensive. For instance, public opinions on the recently announced budget mentions pensions for non-government employees or more “goodies” for the folks on the street – not just more perks for civil servants.

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Fiscal Federalism

The issue that concerns the man on the street is how best he can voice what he feels the government should be obliged to deliver for his tax money. The distance between where he lives or work and the hallowed halls of Putrajaya is indeed very long. Fiscal federalism is a widely debated issue in Malaysia. The country is a federation of many states but constitutionally speaking, only the governance of religion, land and local authority functions, including town planning and development approval, have been relegated to the state. All other functions of governance are handled by the relevant federal ministries, totalling thirty-three in number. Our tax money thus ends up in the federal treasury and is spent as a nation, regardless and perhaps disproportionately to its origins across the different states. About nine-tenths of the state government budget is raised from quit rent and probably a similar proportion of local government funding comes from building assessments. Therefore tax money figures only as a relatively small proportion of public spending that is decided at the level of the state or local government. Much of infrastructure development and public service provision is decided remotely and centrally from Putrajaya.



There is really nothing wrong with this. The more limited scope of state and local government functions compared with federal ministry functions suggests that public spending at the state level does not occur via the state or local government, but is channelled via the respective ministries – public works, public health, public education, police and so on and administered through the state and district branches of these ministries. Talk to the state directors of different federal ministries and they will tell you that even though they are federal appointees, from where they sit they have the state interest and priorities and local folks in their hearts when performing their duties.

From the minds of the people, on the other hand, they might have a different set of thoughts. Yes, the federal government has done well in meeting the people's needs and the parliamentary mandate given to it by the ballot boxes, but what about ballots casts on the state legislatures? Surely, state legislatures have to be concerned with issues that go beyond simply religion, land and local government in terms of election mandate and constituency promises.

The issue, however, may not be money, since the state government has only a limited scope within the various sectors of government. More money for the state would not allow public expenditure to find its way into public delivery of schools, health care, policing, better roads and bridges or cleaner environment in the way that local people want it, since these sectors are the responsibility of the federal government. The issue perhaps is better state-federal consultation. In Malaysia, state and parliamentary political constituencies do not overlap. Seats on the state legislature are demarcated on the ground as subsets of parliamentary constituencies. Given that Barisan Nasional has done well at the ballot box to capture most of both state and parliamentary seats there is a high likelihood that parliamentarians will find fellow Barisan members sitting on the state legislature that falls within their constituencies.

In order that ordinary citizens can have a voice as to what they want the federal government to do, they might consider getting their state assembly representatives to debate their wish list at the state legislature. Once a consensus is reached there, parliamentarians working in close consultation with the state assembly representatives in their constituencies would then take the debate to parliament and hence to the cabinet. Given that there are 33 ministries and 222 members of parliament, one in six or seven of them is a cabinet minister, deputy minister or parliamentary secretary, that is, technically also a cabinet member.

Thus instead of money, maybe it might be better to formalise dialogues and consultations between state assembly representatives and parliamentarians, in other words, bringing the federal government closer to the their parliamentary constituencies from which elections promises were made and their ballots earned. For one thing, this will give more scope for discussion at the state legislatures, not because of the laws that states will pass but on the missions that government is meant to serve on behalf of the people. Once, the people feel they have a say, then paying for government spending will make more sense to the taxpayer.

The GST

Despite the fact that a year has gone by, and despite the fact that the finance minister, who is also prime minister, has asked that the GST issue be widely discussed across the Malaysia society, it appears that there has been little visible progress about its scheduled implementation for fiscal year 2007. The absence of mention in September's budget speech on the GST further raises questions as to whether everything is moving smoothly in time for 2007 or if the government is having second thoughts about pushing the GST through on schedule. If anything, the high oil price scenario, inflation and moderated growth may be factors that have altered the economic environment from what it was a year before. However, even though there has been little visible signs, the customs department, the inland-revenue department, interest groups such as the Federation of Malaysian Manufacturers, among others, have been busy making preparations.

GST has been implemented in many if not most countries in the world and throughout most of ASEAN. The rationale behind it is its practicality. For Malaysia, the GST would also allow for a more equitable distribution of the tax burden among the citizens. This naturally raises emotions and denials among those who have, under the present personal income tax system, not been made to pay taxes but now, under protest, and understandably so, will be forced to do so under the GST. The textbook tells us that the calculation of the tax base is very difficult under the personal income tax system. The tax base is the size of the fund from which taxes can be raised. To obtain the total tax revenue that the government wishes to raise is to multiply the tax base with the tax incidence (or tax rate). But because the deductions available to tax payers from the total income earned are many and complex, the government finds it difficult to estimate exactly how large the tax base (that is the total chargeable income) is. Furthermore, the tax rate varies on a progressive scale and thus there is also a large variation in the tax incidence. In other words, the problem with personal income tax is that the government has less control over how much revenue can be raised, not knowing exactly how large is the tax base and what is the incidence as this depends on the progressive tax structure of individual taxpayers.



On the other hand, the GST is, from a practical, standpoint very simple. The tax base under the GST is the total value added (assuming that the GST is the value added tax), which is by comparison to chargeable income much easier to determine – it is by definition the gross domestic product or GDP (allowing for accounting errors that is). There is only one tax rate and thus, depending on how much revenue the government needs for the public budget, the rate can be set by dividing the revenue needed by the estimated GDP. An example will demonstrate this. We generally observe that the government in Malaysia usually asks for a quarter of the GDP for the public budget and half of this budget is made up of direct and indirect taxes from taxpayers and businesses. In the extreme scenario, personal income tax is completely done away with. Given this assumption, the required GST rate is relatively easy to calculate.

The first thing to do is to decide how business should pay through corporate taxes. The tax structure there is much simpler than personal income tax – flat rates of 28 percent of profits for companies with paid up capital higher than RM2.5 million and 20 percent for those below. Companies have to submit profit projections ahead of time to the inland revenue department under the current self assessment system, thus the government has a pretty good estimate of how much tax money there will be from corporate taxes. Suppose the decision is half and half between corporate taxes and GST (remember we assume that there is no more personal income tax) then we are saying that one-sixteenth of the GDP has to be raised through the GST (a quarter of the GDP for the budget, half of that from direct and indirect taxes, and half of this half from the GST, hence $\frac{1}{4} \times \frac{1}{2} \times \frac{1}{2} = 1/16$). The GST rate should then be 6.25 percent of value added.

Of course no one expects personal income taxes to be abolished and, if again assuming that the government works on a half and half basis between personal income taxes and GST, then perhaps the GST rate might end up at 1/32 of GDP or the rate of 3.125 percent of value added. This also suggests that the personal income tax rate would be half of what is currently paid. The example given here is naturally only for illustrative purposes but it does show that there is much more control over raising public revenues and thus giving room for policy.

It really makes little sense to run two parallel tax systems side by side (personal income tax and GST), giving the people the impression that they are being taxed everywhere. While the GST appears conceptually simple, there will be a lot of operational procedures and paperwork to compile as well as a complicated mechanism for collected GST to be paid to the government and refunds from the government for GST already paid along the value adding chain when companies invoice companies for intermediate inputs. GST implementation will come at a cost to doing business in terms of materials, personnel and equipment even though not a single cent of the GST will be raised from business enterprises. Coupled with the perceived disruption to the current way of conducting business, a 3.125 percent GST rate might be a lot of effort for a comparatively small amount of public revenue.

The more difficult thing to do is how to sell the idea that everyone rich or poor, earning or not earning, young or old, is exposed to taxes – payable the moment a purchase is made of goods and services. Politically this will be hard to sell considering that a person that makes RM3,000 a month, which is by no means a small income, likely pays only about RM10 a month of taxes (this works out to an insignificant rate of 0.33 percent).¹ One cannot imagine that many people in Malaysia earns more than RM3,000 monthly and therefore it is likely that a very large proportion of Malaysian residents have not experienced paying taxes. When other countries in the world switched to GST, it was perhaps moving from one form of tax to another for the people there. In Malaysia it implies moving from not having to pay to actually paying taxes.

Nation Building

No amount of convincing will suffice that will make willing taxpayers out of people who have never had to pay taxes. This is why selling the GST idea has to focus not on government revenues but on the need for government and its role in the society. In this regard, Prime Minister Abdullah Badawi is right, it is about the public delivery system. Before, members of the public might complain about this and about that, wanting of better governance. But considering that the non-tax payer has received virtually everything from the government for free – education for the children, low cost public health care, living environment safe from crime, rescue and relief services during catastrophes and so on, lower efficiencies in the government might fall within expectations. Many among those that do pay taxes (the relatively small proportion of the public) might have elected to buy the services they want and can afford from the market – private colleges and private health care for instance, as evidenced by the success of private colleges and private hospitals, and thus place less reliance on government services. Public sector efficiency also becomes less of an issue to people who prefer to buy what they need from the market.

When each and everyone becomes a taxpayer, societal concerns about where its tax money goes and how it is spent will heightened considerably. The reason is the issue of social choice will begin to take centre stage, because many people will begin to think that if government cannot deliver a particular service well, then they might as well depend on the market instead by reducing the public sector budget and pay less tax. Today, despite the fact that most people do not pay taxes, the budget speech has been keenly listened to and widespread opinions cast via the media about what government could or should have done. There is a long wish list out there from non-tax payers. This list will become a long demand list instead by taxpayers, not just a wish list.

One, often overlooked, issue is foreign participation in Malaysia's economy. Basically, the question is, are foreign workers needed or not? Time and again the news focus on the policy to deny free education or free health care to foreigners. Most foreign workers do not pay taxes because of their income level, and being non-citizens, there is no national obligation to assist them with public services. The higher end foreign workers (the expatriates) pay taxes but they tend to send their children to international schools and receive private health care as part of their remuneration package and thus access to public services have not become an issue. Nonetheless, as fellow participants in the national economy, contributing to the GDP, citizens and foreigners alike, discrimination is morally

¹ Based on RM36000 gross income or RM20000 of chargeable income after deducting a wide variety of allowances. The tax due for RM20000 is RM475 but below the RM35000 income level there is a tax rebate of RM350 from the tax bill leaving only RM125 due for the entire year of taxes.

and ethically wrong. If foreigners are to be looked at in Malaysia as less than a whole compared to citizens, then the nation should also say, that its GDP should also be earned by its own citizens without foreign help. One cannot have it both ways.

Citizenship is only about the right to vote. It is not about access to public services as technically, every worker is subject to taxes (regardless of whether any is actually paid). Besides, in the spirit of cross-border division of labour, Malaysia has double taxation agreements with many countries such that Malaysians working abroad will pay taxes to the country where they reside and are spared their tax obligations to the motherland. Likewise foreigners earning their income in Malaysia will pay Malaysian taxes and be spared of their tax obligations to their own motherland. Thus denying foreign workers in Malaysia of public services amounts to failure in honouring the spirit of its double tax agreements with countries abroad. That most foreign workers do not pay taxes because of their low-income levels is thus only a moot point. Once the GST rolls in, everyone regardless of citizenship pays taxes. The policy of denying foreigners public goods and services will have to be given another thought.

Conclusions

But beyond looking at government as merely public sector economics, existing only to guarantee the supply of goods and services that the market has failed to deliver properly, the public sector budget is also about nation building. Once, without local universities, a degree is beyond the reach of ordinary folks. Once, without better-equipped public hospitals difficult medical procedures are totally unaffordable to the lower income group. Once, without development programmes and policies, the chasm that divides the rich and the poor or the urban and the rural, the working class and farmers from the landed gentry is fearfully wide. Market devices do less well to bridge all kinds of gaps that emerge in society. Social choice, the ballot box, parliamentary debate and pro-active governance are what the public sector budget is ultimately about. § *Dr. Chan Huan Chiang*



FORUM

The article below is the last 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 seripq@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 GST AND ITS IMPACT ON EXPORTS AND IMPORTS

By Prof. Dr. Suresh Narayanan



Introduction

This is the final installment in this series of articles on the Goods and Services Tax (GST) that has been proposed for implementation in Malaysia in the year 2007. In the course of eight articles thus far, we have looked at different aspects of the GST, which as has been repeatedly stressed is simply a nice name for the widely used value-added tax or VAT.

The GST and the recent 2006 Budget Speech and Proposals

Before we get into the details of the possible impact of the VAT on exports and imports, I would like to say a few words on the recently announced Budget proposals for 2006. While many public discussions have been held (including a very well attended one organized by SERI) on the measures announced in the budget, I was more intrigued by what was not said. More specifically, I was rather surprised by the fact that nothing at all was mentioned about the GST that has been proposed for introduction in year 2007. I expected that at the very least, somewhere in his budget speech, the Finance Minister would remind the public that the GST is on course and we should all be fully prepared for its implementation. In fact, I was expecting more, in preparation for the VAT. Perhaps some announcement on the likely changes in the structure of the income and prevailing sales and services tax that we might expect with the impending introduction of the GST.

Given the complete silence on the topic of the GST in the budget speech and the proposals, I began imagining two prospects. One, I thought that perhaps the government was having second thoughts about the date of implementation of the GST—and for good reason. Given recent price increases in petrol and several other commodities, it might have struck policy makers that a GST in this environment may aggravate further the rise in price level and attract a negative reaction from the consuming public. As readers might recall, in our discussion of the impact of the GST prices, it was argued that it would generate a one-time increase in the general price level. Two, it might reflect an inadequate state of preparation on the part of policy implementers, which if true, is not a good sign. A GST requires at least a two-year lead time if it is to be implemented without hiccups. And a good part of this time is spent acquainting both business persons and consumers on how the tax works. As a member of the public, I have not been aware of very much activity on this score.

When I raised these concerns at the budget dialogue session organized by SERI, a member of the panel assured us that the government had every intention of proceeding with the GST as planned. We were further assured that a lot of behind the scenes meetings and discussions have been taking place. If all this is true, then we can indeed expect the GST by 2007. *Nevertheless, since the GST is not a tax to be implemented without public education, I wish more high profile activities would not only be organized but be publicized as well.* With that said, we can turn to the subject of the present discussion.

The GST and Exports

Since our country is very dependent on exports, exporters will be keen to know what impact, if any, the GST might have on imports. The good news is that it would have no impact, certainly nothing negative; and any positive impact, while very welcome, would be short-lived.

The effect of the GST on exports is best seen by first assuming that no taxes on consumption are in place. If now a GST is introduced and international trade is treated on the basis of the destination principle (that is, imports are taxed but exports are not), the procedure to free exports completely from the GST is to zero-rate export goods.

Zero-rating, as explained before, not only does not tax the export commodity, but also grants credit for all taxes imbedded in inputs used in prior stages of production or distribution of the export good. In this way, zero-rated exports are not disadvantaged by domestically imposed taxes. It must be emphasized that zero-rating exports is not a form of subsidy or any type of favoured treatment. In fact if exports were not zero-rated, they would be worse off than prior to the implementation of the GST.

It is obvious from the example above that if the GST replaces some existing sales tax that also manages to completely relieve exports of the tax, both on the final commodity and the inputs used in its manufacture, replacing it with a GST would have no effect on exports. In other words, whatever favourable impact a GST may have on exports arises from the fact that most existing sales tax structures fail to remove all taxes embodied in exports, and the GST, by doing a better job in this respect, would enhance the competitiveness of the nation's exports.



The magnitude of such gains on the balance of trade is not only country specific, but is also unlikely to be large. Moreover these gains will only be in the short term if exchange rates are free to adjust. Countries such as Sweden, South Korea and Indonesia, for example, expected that the GST would improve the position of their exports on the basis of such reasoning. In the case of South Korea, their VAT replaced a turnover type tax where exports, although exempted from the tax at the final stage, still embodied elements of the tax from previous stages. Since border tax adjustments only succeeded in approximating imbedded taxes, moving to the VAT was believed to have had a modest but positive impact on the balance of payments.

Sometimes the argument is made that when the GST is used to substitute for a part or all of corporate income tax revenues, exports gain a temporary advantage. Once again, this would be true only if taxes on exports can be fully rebated under a GST, while the implicit taxes on exports caused by the corporate income tax cannot. Hence, while the GST itself remains neutral with respect to exports, the boost to exports comes from the reduction in corporate taxes that presumably leads to lower prices for exports. Such an effect will only be substantial if the current corporate tax has forced corporations to increase the price of corporate output, regardless of whether it is exported or consumed locally.

The impact of the GST on exports may be modified further in a small open economy like Malaysia. First, it is reasonable to assume that Malaysian exporters face perfectly elastic demand for their exports at prices determined in world markets and is beyond their direct control. This being the case, it is unlikely that corporate taxes are passed forward to foreign consumers. Thus, a greater reliance on the GST, relative to the existing corporate income taxes, may not have an impact on export prices, though it could expand export production and earnings.

Second, there is a significant level of foreign involvement in Malaysia's manufacturing sector. Many of these foreign owned or controlled operations in non-traditional exports sector enjoy tax relief. Hence, replacing part of the corporate tax with the GST would have no effect on the prices of their output. In the case of foreign corporations paying the tax in Malaysia, to the extent that they can offset such payments against corporate taxes due in their home country, there may be no incentive to shift the tax in the first instance; consequently, replacing the corporate tax with a GST would again have no effect on prices.

The GST and Imports

Producers serving the domestic market, and facing competition from imports, would be glad to know that the GST might favour them. If multiple taxes had previously disadvantaged domestic production, vis- a- vis imports, under the old sales tax regime, a shift to the GST would have a favourable impact on locally produced commodities. This is because a well-designed and implemented GST will remove elements of tax cascading and pyramiding (that we discussed in a previous issue) that inflated their costs previously.

The presence of imported substitutes is also an important consideration. The ability of the importers to raise prices in the face of corporate tax is determined by the actions of importing agencies that are also subject to the tax. Since domestic firms cannot hike prices beyond those initiated by the importing agencies, the tax does not alter the relative prices between imports and import substitutes. Only in the case of domestic production with no imported equivalent can the corporate tax be expected to raise the price; in which case, replacing it with the GST might lower the price, but this would not affect import consumption.

Conclusion

Overall, we might expect the net impact of the GST on the balance of trade to be small but positive, and that too only in the short term. Substituting the GST for part of the corporate tax might lower export prices and boost export competitiveness, on the one hand, and, on the other hand, lower the prices of domestically produced goods, encourage their consumption, and reduce imports.

More generally, and in the longer term, it is unlikely that the introduction of the GST as a replacement to the existing sales and services taxes will offer any significant advantage to exports. This is because under the prevailing tax structure, exports are already exempt from sales tax and excises; the 'ring system' also minimizes the danger of multiple-taxation of exports.



FORUM

Mr Lim Hooi Siang joins in the discussion on the Penang State Structure Plan, calling for greater public participation. (Please refer to the June and September 2005 issues of the Penang Economic Monthly). SERI welcomes further inputs from all our readers. However, the editors reserve the right not to publish articles that are considered incendiary or factually inaccurate. 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.

I wish to congratulate the Penang State Town and Country Planning Department for making a spirited response to the article on **The Penang Structure Plan (2005-2020): Top Down or Bottom Up?** by **Dr. Chan Huan Chiang**.

I hope this forum will generate a healthy discussion on the state of development planning in Malaysia, specifically in Penang, and make us think about how our daily lives can be improved with a better and more transparent town planning system.

As far as the preparation of development plans is concerned, both the State Town and Country Planning Department and the Local Authorities have to operate according to the provisions of the Town and Country Planning Act 1976 (Act 172) together with all its later amendments.

However, the central issue raised by Dr. Chan is whether there could be better public participation in the drafting of development plans, i.e. structure plan and local plans. While Act 172 requires that the public be afforded the opportunity to comment and to object to draft structure plans and local plans, the big question is whether there is any political will to engage the public in environmental and urban development issues.

For example, the accessibility to inspecting the recent Report of Survey of the Penang State Structure Plan would have been better if the Report of Survey had been better publicized and reports made available to a wider spread of the population in community centres, libraries, shopping centres and other public places. The Report of Survey and the Draft Structure Plans are by no means easy to read and understand, and are not in your every day vocabulary. It is available only in Bahasa Malaysia.

Should not elected representatives (state assemblymen) and appointed councilors show more interest in the Structure Plan and help to explain to their constituencies that it is the citizen's legal right to know about the planning for physical development in the State?

The first public exhibition on the Report of Survey and proposals for the Draft Structure Plan for the Municipal Council of Penang Island was held from September to October 1985 and subsequently extended. Understandably this was the first time ever that members of the public were invited to give their views in the drafting of a plan by the local authority and much effort was required to explain to the public how the planning process works according to the Town and Country Planning Act. Almost exactly 20 years later, with a whole new generation of population reaching adulthood, we have a second exhibition on the Report of Survey. But have we reached out to this new generation of IT-savvy and mobile phone carrying population? Penang State proclaims itself to be promoting the k-economy and IT but sadly the Report of Survey was not posted on a website. JPBD could have created an on-line forum on the State structure plan.

JPBD reported that 594 people attended the state organized public forum and dialogue sessions, but if this figure is seen in relation to the population size of 1.2 million people in the State, can it be considered as overwhelming public response especially in a highly urbanized state like Penang? We have seen from newspaper reports many development issues raised by the Penang public like the PORR, the traffic system, public transport, solid waste disposal, lack of playgrounds, cutting of hill-slopes and trees, etc. But does the public know that these are the very issues that should be raised in the drafting of the structure plan?



It would be interesting to know what were the main issues raised in the written representations to JPBD and whether the issues raised reflect the public's understanding of the purpose and content of the Structure Plan. In the interest of improving the public participation process, JPBD should carry out an analysis of the level of public participation and make the findings public so that a much better public response to the draft structure plan can be assured.

JPBD has quite rightly pointed out the need to give attention to certain macro issues, which might otherwise be overlooked by the more parochial concerns of the local authority. While this may be so, it should not be assumed that the public is not concerned with wider issues affecting national and state policies in land-use development. The hierarchical system of the National Spatial Plan, State structure plan and local plan suggests a top-down planning approach, which is further reinforced by the closed-system in drafting the national spatial plan, i.e. the absence of public participation.

The long time taken from the time the review of the first structure plan was initiated to the time this report of survey is publicized is a major cause of concern. During this course of over 10 years, physical development in the State of Penang has occurred at a tremendous pace. Many more projects are also being planned, most of which are initiated by the private sector, but surprisingly mentioned in the report of survey as a matter of course. The public should take the opportunity provided by the Town and Country Planning Act to closely scrutinize all these proposals as they are matters of public interest.

It would seem that structure planning is trying to catch up with actual development. Notwithstanding that the State Structure Plan will be revealed in all its glory in due time, the government, in practicing good governance should continue to inform the people about impending public projects under planning, and better still open such projects for public tender in a transparent manner so that the State and the people will get the best deal.

Lim Hooi Siang is a registered town planner and corporate member of the Malaysian Institute of Planners. He was involved in the preparation of the Municipal Council of Penang Island Report of Survey and Draft Structure Plan, as assistant project manager in the MPPP's Structure Plan Unit (1983- 1987).

INTERNATIONAL HEADLINES

Survey: Japan Corporate Sentiment Rising

Oct 2, 2005, AP

The tankan survey, a quarterly survey by the Bank of Japan, showed that confidence in the Japanese economy rose for the second straight quarter, underlining hopes for a continuing economic recovery in the world's second-largest economy. The September tankan index that measures large manufacturers' business conditions rose one point from June to 19,2005. In June, the tankan index rose four points from March to 18,2005. The results are in line with the view of the government and the Japanese central bank that the economy has emerged from a lull. The survey also showed large companies now plan to boost their business investment by 9.3 percent this fiscal year, worse than economists' forecast for a 10.3 percent increase.

Ministers Aim to Rejuvenate Trade Talks

Oct 9, 2005, AP

With just two months remaining before a deadline for a framework global trade treaty, ministers from the largest trade powers are under pressure to make difficult concessions. WTO Director-General Pascal Lamy has said that the EU and the United States will have to make adjustments in agriculture policy if progress is to be made in the present round of global trade talks, which is already well behind an original December 2004 deadline. Lamy believes the EU needs to open its market more to foreign producers while the U.S. should offer to cut the level of financial support it gives its farmers. Washington so far has resisted demands to come up with an offer to cut market-distorting farm aid, saying it first wants to see moves by trade partners to reduce agricultural import tariffs.

The global trade treaty, known as The Doha round, named for the Qatari capital where it was launched in 2001, sets out to boost the global economy by lowering trade barriers across all sectors, with particular emphasis on developing countries. At a Hong Kong summit scheduled for the end of the year the WTO's 148 members are supposed to agree on an outline for a global trade deal.

The World is Flat

Oct 10, 2005, AWSJ

The government of Greece is contemplating a 25 percent flat-rate income tax to take effect in 2006, replacing multiple-tier tax structure with rates of 40 percent or more. This brings the number of countries with a single-rate tax to 11, namely Estonia (24 percent), Georgia (12 percent), Hong Kong (16 percent), Latvia (25 percent), Lithuania (33 percent), Romania (16 percent), Russia (13 percent), Serbia (14 percent), Slovakia (19 percent) and Ukraine (13 percent). The disadvantage of a flat rate system is that it allows the rich to slash their tax bills. Nevertheless, some argued that the best way to get more taxes out of rich people is to generate more rich people, and then give them more incentives (lesser paperwork) to report their income by keeping tax rates low. Russia has reported that it now gets more tax revenues from the rich from its 13 percent flat tax than from its pre-existing tax code with massive evasion and 50 percent-plus tax rates. In response to the growing number of flat-tax nations, Old Europe is also considering tax reform, lest its economies become increasingly uncompetitive.

Fed's Inflation Vigilance Persists

Oct 20, 2005, CNN Money

More interest-rate increases are expected from the central bank as Federal Reserve is committed to preserve its credibility as an inflation fighter. The Fed has raised interest rates by a quarter-percentage point 11 times since June 2004 in a bid to head off price pressures, taking overnight borrowing costs to 3.75 percent. Financial markets expect them at 4.5 percent before the Fed calls off its campaign. Surging energy costs have pushed U.S. inflation up sharply, with consumer prices in September 4.7 percent above year-ago levels. Nevertheless, inflation expectations appeared to be under control despite soaring energy prices, suggesting financial markets trusted the central bank.



China Balances Growth With Cooling Investment

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China has managed to avoid a “hard-landing” so far as its economy roared ahead in the first nine months by 9.4 percent from a year earlier. This is despite the government crackdown that began last year on overheated investment in property and industries like steel and cement. In September, China’s consumer prices rose just 0.9 percent compared to 1.3 percent in August, stemming fear of deflation. The result of massive overinvestment has led to a glut of everything from cars to washing machines. Consumers are also not spending in the nation with one of the highest saving rates. The government’s traditional way of boosting domestic demand – investment in huge infrastructure projects simply put off the problem of boosting consumption.

