

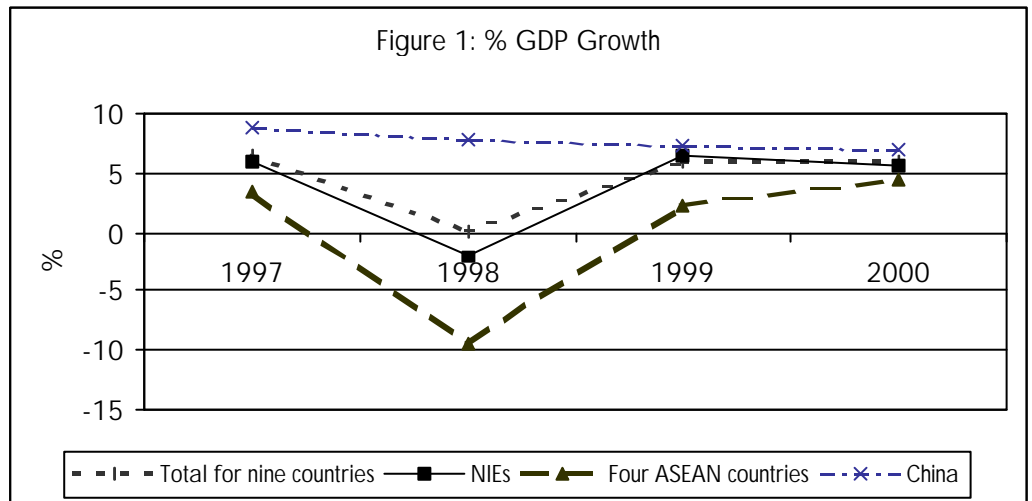


Economic Briefing To the Penang State Government

Outlook For Asian Economies

The Asian economy rebounded in 1999 with a projected 9.0% growth compared to a mere 0.1% in 1998. This is the projected growth rate for nine countries and economies as a group, namely South Korea, Taiwan, Hong Kong, Singapore, Thailand, Malaysia, Indonesia, Philippines and China. The high growth was mainly driven by economic stability in China, and assisted by the significant improvement in the economic performances of the newly industrialised economies (NIEs) and the four ASEAN countries. (See Figure 1) NIEs

Inside this issue: Outlook For Asian Economies 1, Malaysia's Productivity Performance 3, Pre-School Education in Penang 6, E-Commerce Trends in Malaysia 8



Source: Derived from Sarwa Economic Letter, January 2000

The NIEs as a group are expected to achieve 6.5% growth in 1999, a significant improvement from a negative growth of 2.1% in 1998. South Korea and Hong Kong, which suffered contraction in 1998 rebounded with positive growths in 1999. Taiwan experienced only marginal growth between 1998 and 1999, while Singapore's economy improved significantly from a growth of 0.3% in 1998 to 5.0% in 1999. (See Figure 2)

4 ASEAN Countries

Thailand's economy recovered from a double-digit contraction (10.0%) to a growth of 4.2% in 1999. Similarly, Malaysia's economy bounced back from a negative growth of 7.5% in 1998 to a healthy 5.1% in 1999. Philippines achieved a less significant growth in its GDP from -0.5% in 1998 to 2.0% in 1999. On the other hand, Indonesia is still experiencing a contraction in its economy, though improved slightly from the trough of its recession in 1998 (-13.2%) to -0.9% in 1999. (See Figure 3)

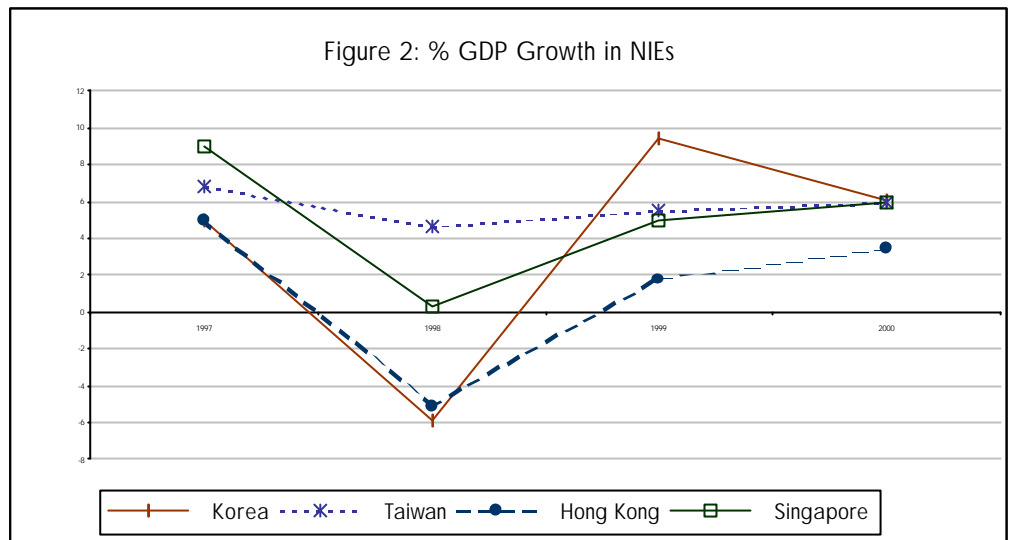
China

China's economy, similar to that in Singapore and Taiwan, did not contract even

(Continued on page 2)

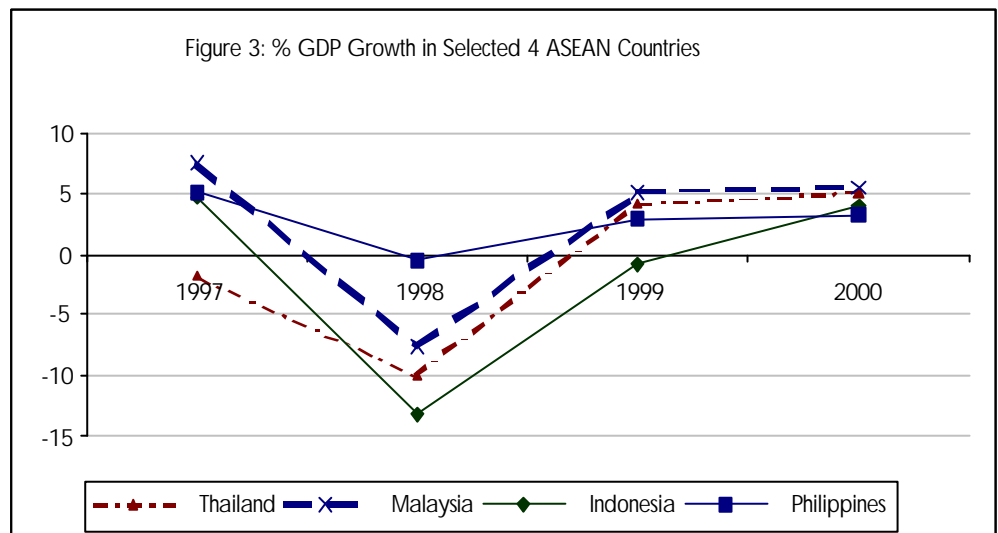
Contact information for SERI: Phone: 604-2283306, Fax: 604-2267042, Email: seripg@tm.net.my, Website: http://www.seri.com.my

The Asian economy rebounded in 1999 with a projected 9.0% growth compared to a mere 0.1% in 1998.



Source: Derived from Sanwa Economic Letter, January 2000

The NIEs as a group are expected to achieve 6.5% growth in 1999, a significant improvement from a negative growth of 2.1% in 1998.



Source: Derived from Sanwa Economic Letter, January 2000

Malaysia's economy bounced back from a negative growth of 7.5% in 1998 to a healthy 5.1% in 1999.

(Continued from page 1)

during the Asian crisis. However, unlike the economies of Singapore and Taiwan, which grew at a slower pace during 1998 and then at a faster pace again in 1999, China's economic growth rate has been declining from 8.8% in 1997 to 7.8% in 1998. This growth rate dropped further to 7.3% in 1999 and is projected to drop to 7.0% in 2000.

Year 2000

Most of the economies are expected to improve further in the year 2000. Although growth is expected to maintain at 6% for the nine countries, Taiwan, Singapore and Hong Kong are expected to achieve greater economic growth in the year 2000. Similarly, the economies of all the four ASEAN countries are expected to improve. The economy of Indonesia is projected to grow at 4.0% in 2000 compared to a negative growth of 0.9% in 1999.

Although all the nine countries are anticipated to experience growth in their economies in the year 2000, South Korea and China would most likely grow at a slower pace compared to 1999.

(Continued on page 3)

Malaysia's Productivity Performance

A Summary of the National Productivity Corporation's Productivity Report 1998

The 7th Malaysia Plan (1996-2000) marks a new emphasis on productivity over inputs in development planning. The enhancement of Total Factor Productivity (TFP) is defined by more efficient utilization and management of resources, materials and inputs needed for the production of goods and services. TFP is often used as a measure of technological advancement associated with economic growth. Malaysia's TFP growth for 1988-98 was 1.5 % with a productivity growth rate of 3.2%. Based on estimates from developed economies, Malaysia needs to maintain a TFP growth rate of at least 2.0% per year to eventually achieve industrialized status. An emphasis on quality and productivity-driven growth and on TFP should be part of the strategic plan to hasten economic recovery. Remedial steps in this direction have been taken by the public and private sectors and these include:

- upgrading investment in human resource development
- upgrading management sectors to fulfill MS 9000 systems criteria
- administrative reforms, the application of information technology and the
- implementation of quality systems such as the ISO 9000 series

The Productivity Performance of Selected Economic Sectors for 1998 are as follows:

- The Manufacturing sector registered negative growth of 7.0% in productivity, resulting from economic contraction, a tight credit situation and high interest rate.
- The Construction sector saw negative growth of 12.7% in productivity.
- The Agriculture sector registered negative growth of 0.7% in productivity.
- The Electricity sector registered productivity growth of 2.0%.
- The Finance sector's productivity grew by 1.8%.
- The Transport sector's productivity grew by 1.0%.

On average, the Government was able to maintain annual productivity growth of more than 5.0% between 1988 and 1997.

For 1999, productivity is expected to grow by 3.3%, while the national economy would expand by 1.0%. The National Recovery Plan (NERP) designed to support continued growth will emphasize currency stabilization, market confidence, financial stability, economic fundamentals consolidation, revitalization of weakened

(Continued on page 4)

(Continued from page 2)

The remarkable turnaround in most of the nine countries has been due to various factors, which include:

- Improvement in consumer spending;
- Increased private capital investment in both the private and public sectors; and
- Growth in the export market.

§ Anna Ong & Terence Too

..... Malaysia needs to maintain a TFP growth rate of at least 2.0% per year to eventually achieve industrialized status.

(Continued from page 3)

sectors and equity in the socio-economic agenda. The government will also seek to upgrade competitiveness by linking wage increases to productivity gains.

Forecast of Sectoral Performance in Productivity for 1999

SECTOR	PRODUCTIVITY
Manufacturing	4.6% increase expected
Transport	1.4% increase expected
Agriculture	4.3% increase expected
Construction	0.2% decrease expected

International Pro-

ductivity Comparison (1990-1997)

For the period 1990-97, Malaysia's average productivity growth of 5.4% exceeded that of the 7 major OECD countries. In the Asian region, the national growth rate exceeded that of Singapore and Hong Kong, and was comparable to the growth rates experienced by Indonesia, South Korea and Taiwan. In 1998, however, Malaysia's productivity declined by 1.8%, falling below the rates of all the major OECD countries, except Japan.

In comparative terms, countries like Singapore and Hong Kong experienced approximately 4 times the relative productivity level of Malaysia in 1997, while Korea's level was twice that of the Malaysian average. Indonesia on the other hand achieved only a quarter of Malaysia's productivity level. (see Table below)

Comparative Relative Productivity in 1997

COUNTRY	RELATIVE PRODUCTIVITY (1997)
Singapore	4.13
Hong Kong SAR, China	3.96
Taiwan, ROC	3.15
Republic of Korea	2.26
Malaysia	1.00
Indonesia	0.25

Malaysia's 1997 productivity growth in the manufacturing sector registered at 5.7%, exceeding that of Singapore (2.3%), Indonesia (2.1%), and Japan (1.0%). Among the aggregate services sector in 1997, Transport posted the highest growth at 8.4%, while the Trade and Finance sectors registered more modest growth at 6.4% and 5.8% respectively. In Transport growth, Malaysia outperformed Indonesia, Singapore and Japan, while Singapore registered higher growth for Trade, and Indonesia and Japan had higher growth for Finance in 1997. (see Table next page)

The 1997 Productivity Performance of Selected Manufacturing Sub-Sectors are as follows:

- Electrical & Electronic sub-sector (E&E) contributed significantly to the manufacturing sector in terms of added value (increased by 16.1%), total output (increased by 16.5%), export earnings (increased by 16%) and was the largest contributor in

(Continued on page 5)

..... countries like Singapore and Hong Kong experienced approximately 4 times the relative productivity level of Malaysia

Among the aggregate services sector in 1997, Transport posted the highest growth at 8.4%

(Continued from page 4)

Comparative Productivity Growth in Selected Sectors (%) in 1997

COUNTRY	Manufacturing	Transport	Trade	Finance
Malaysia	5.7	8.4	6.4	5.8
Indonesia	2.1	3.3	-1.4	10.0
Singapore	2.3	1.6	7.8	-0.1
Japan	1.0	0.1	2.4	8.8

terms of employment in the manufacturing sector.

- The Apparel sub-sector, comprising clothing factories and custom tailoring is characterized largely by SMIs and a few large fully-integrated firms. Double digit growth was recorded in Added Value per Employee (10.4%) and Total Output per Employee (13.5%). This sub-sector, which is labour-intensive, is vulnerable to the incidence of job-hopping and high turnover. A shift towards higher value production has become necessary, even as low-end production gradually shifts to low-cost producing countries.
- The Textiles sub-sector, comprising a wide range of textile-making activities is also characterized predominantly by SMIs and several large fully-integrated firms. Growth of 25.2% and 15.9% was achieved in Added Value per Employee and Total Output per Employee respectively. Due to intensifying global competition, there has been greater modernization towards automation and integrated production.
- The Fabricated Metal Products sub-sector, which comprises industry groups that manufacture cutlery, tools, hardware, etc. registered growth of 15.8% in Added Value per Employee. The 13.8% growth in Fixed Assets per Employee reflects the continued investments for expansion and development in this sub-sector. Upgrading the skills of the workforce is especially important as progress is made towards more advanced technology and machinery.

Overall, the Textiles sub-sector recorded the highest growth in 1997 in terms of Added Value per Employee, Fixed Assets per Employee and Added Value per Labour Cost. The Leather Products sub-sector had the highest growth in Total Output per Employee, while the Tobacco sub-sector had the highest growth in Labour Cost per Employee. The Industrial Chemical sub-sector had the lowest growth for Process Efficiency.

Enhancing Competitiveness Through Productivity

The World Competitiveness Yearbook 1998 ranked Malaysia as the 20th most competitive economy among 46 countries surveyed. The 8 factors used to gauge competitiveness were Domestic Economy, Internationalization, Government, Finance, Infrastructure, Management, Science & Technology, and People. The enhancement of competitiveness through more efficient utilization of productive inputs has been considered a critical way to hasten economic recovery. Upgrading competitiveness has been expressed in the following initiatives:

- Productivity & Quality programmes to enhance productivity

E&E sector's contribution:
value added ↑ 16.1%
output ↑ 16.5%
export earning ↑ 16.0%

Overall, the Textiles sub-sector recorded the highest growth in 1997 in terms of Added Value per Employee, Fixed Assets per Employee and Added Value per Labour Cost.

(Continued on page 6)

Pre-School Education in Penang

Many parents of young children in Malaysia, particularly of families located in metropolitan and urban areas like Penang, feel that their offspring should be grounded in pre-school fundamentals, or at least be given some exposure to kindergarten and nursery school before they enroll in Year One of the public school system. This could largely be due to the continued emphasis on formal education and paper qualifications as one of the primary means to acquire a competitive edge and to achieve upward social mobility and career success later on in life.

Accessibility to pre-school education for young children in Penang appears to be very satisfactory. According to statistics from the Penang State Education Department or Jabatan Pendidikan Negeri (JPN), approximately 94% of Standard One students in the state had received some form of pre-school education in 1997.

The pre-schools in Penang may be classified into 5 categories:

- Private kindergartens
- Pre-schools operated by KEMAS
- Pre-schools operated by Jabatan Perpaduan Negara
- Pre-schools operated by Jabatan Hal-Ehwal Islam, and
- Pre-schools operated by Jabatan Pendidikan Negeri, which are integrated with government primary schools

Some studies suggest that pre-schools, especially those with specially-tailored programmes for children with different needs, provide a helpful "early intervention" which is beneficial to children who are slow learners or who have different forms of learning disabilities. Unfortunately, there are very few well-

established programmes in Penang that cater to the needs of the hearing-impaired and other children with different forms of learning disabilities.

Another group that appears to have very limited access to pre-school education comprises young children who enrol in Tamil primary schools. Recent surveys show that more than one-third of students who enter Year One in Tamil schools have virtually no prior exposure to any pre-school training. This is in contrast to the statistical fact that in Penang, nine out of ten Year One children in government schools have had some form of pre-school education.

Pre-school education will very likely remain a vibrant and growing industry in Penang, with the general perspective that pre-school experience gives many young children an early introduction to the framework of formal education and a good headstart over their peers who have not attended any pre-school.

While the available statistics show a high rate of accessibility to pre-schools among young children in Penang, the issues of suitably qualified pre-school instructors, relevant and effective curriculum content and well-equipped premises conducive to pre-school learning should be further investigated. Steps should also be taken to remedy the poor access to pre-school training noted among children with disabilities and children in Tamil schools. These are the primary areas that require upgrading and improvement to further enhance the quality of pre-school education in Penang. **§ Richard Ho**

.... continued emphasis on formal education and paper qualifications as one of the primary means to acquire a competitive edge and to achieve upward social mobility and career success later on in life.

Pre-school education will very likely remain a growing industry in Penang, gives many young children a good headstart over their peers who have not attended any pre-school.

(Continued from page 5)

- IT applications to increase efficiency
- Human Resource Development to upgrade technical skills
- Research & Development for quality products and services
- Benchmarking activities to achieve best practices
- Wage Reform System to link wages to productivity

§ Richard Ho

(Continued from page 8)

viable e-commerce industry.

Internet spending in Malaysia accounts for 1.3% of the country's GDP and the number of Internet users accounts for 3% of the total population. It ranks the lowest for Internet spending per person at US\$59. Singapore has fared better than all its neighbours and recently announced that by the year 2003, 50% of its businesses will be engaged in some form of e-business.

According to the executive director of RHAM Private Equity Management

try could further benefit if Malaysia succeeds in becoming the hub for the region and if more smart money for our Venture Capital investments can be attracted from foreign sources.

Although Malaysian enterprises are lagging behind in the race to e-commerce, the adoption rate of e-business in Malaysia is expected to accelerate in the next two years and it is hoped that Penang too will enjoy a share of this 'e-pie'. The Chief Minister announced recently that Penang aims to be the next MSC in 5 years' time. It is, there-

..... 71% of urban adults are aware of the word "Internet" and 29% are not. Out of those that are aware, only 34% have access to the Internet.

Table 1: Internet Technology Facts for Some Selected Countries (October 1999)

Country	Spending/person (US\$)	%GDP Spending	Internet Users % population
US	1,297	4.2	23.0
Singapore	623	2.2	17.0
Hong Kong	314	1.3	11.0
Taiwan	139	1.0	5.0
Malaysia	59	1.3	3.0
Philippines	1,138	0.6	0.4

Source: Price Waterhouse Coopers

Sdn. Bhd, Caroline Teh, the "hub" race is on and governments in the region are escalating their hi-tech blueprints and initiatives to compete in the hi-tech and knowledge based industry. Malaysia, however, has a competitive edge over the other hubs to incubate start-ups as:

- The burn rate for capital is lower;
- Malaysia has cheap and plentiful space;
- Payroll and other expenses are lower;
- Survival rate for cash strapped start-ups is higher.

Malaysia's nascent e-business indus-

fore, the appropriate time for local businesses to look beyond their traditional methods of doing business and capitalise on the existing technology, utilising it to the fullest in the direction of e-business.

§ Khor Hung Teik

E-Commerce Trends in Malaysia

During the recent Budget 2000 announcement, the Malaysian Government started a RM200 million fund to finance high-tech projects that will spearhead the IT industry into the new millennium. Bank Negara and two other commercial banks provided a further RM300 million to spur the growth of venture companies. Incentives such as tax exemption on all sources of income for a period of 10 years were granted for venture capital companies if 70% of their investment are used in promoting activities and used as seed capital, start-up capital or first stage financing. The focus of IT development would be to provide the infrastructure to foster a knowledge-based and IT Culture.

The question now is whether Malaysian businesses and the private sector are ready to take on this challenge.

According to Price Waterhouse Coopers', executive director and e-business leader, "E-business is still in its infancy, but the rate of adoption will grow with the impetus from the MSC and the joint government and private sector initiative." He observed that Malaysian businesses are also unclear on the difference between e-commerce and e-business. E-commerce is a more basic activity that comprises companies establishing their own websites and going online. They are merely marketing and purchasing their products and services on the Internet. E-business, on the other hand, involves the skill of using electronic information to improve business performance through enhancement of connectivity, improvement of services, reduction of costs and the opening up of new channels of opportunities and contacts.

Present E-commerce Scenario in Malaysia

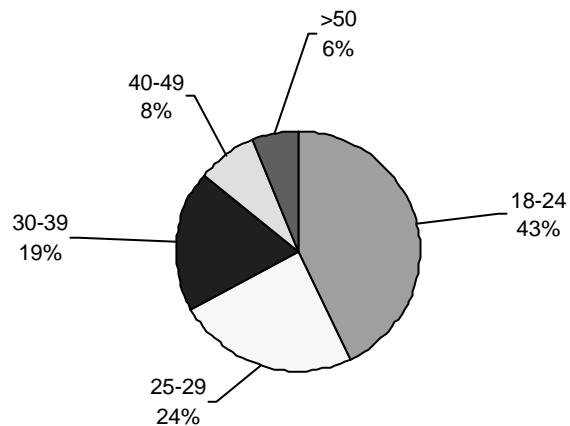
According to Taylor Nelson Sofres Malaysia Sdn Bhd (TNS), 96 percent of urban

adults in Peninsular Malaysia have never bought anything via the Internet versus only 4 percent who have. On the brighter side though, of the group of urban adults who have never bought anything via the Internet, 58 percent say they are likely to do so in the future; the other 42 percent say otherwise.

Figure 1 shows that out of this 4%, people in the age group of 18-24 years are the most likely to make purchases on the Internet followed by those who are 25-29 years old. Older people are less likely to make such purchases. The 18-24 and 25-29 age groups together make up 67% of all the people who make purchases over the Internet in Malaysia. Businesses could

..... the Malaysian Government started a RM200 million fund to finance high-tech projects that will spearhead the IT

Figure 1: Age Groups of People who make purchases on the Internet (%)



do well to package their products to target these two age groups.

In general, the trend of purchase is inversely proportional to the age group of Internet users. The survey also showed that 71% of urban adults are aware of the word "Internet" and 29% are not. Out of those who are aware, only 34% have access to the Internet.

Another survey by PriceWaterhouse Coopers showed that only 3% has access to Internet. Malaysia needs at least 35% of the population to be online to have a

..... 96 percent of urban adults in Peninsular Malaysia have never bought anything via the Internet versus only 4 percent

(Continued on page 7)