



ues to remain on the negative side. The current account surplus was recorded at 17 per cent of GNP in 1999 and expected to be 9 per cent of GNP in 2000. Imports growth has also gone into the double digits but because the exchange rate is relatively weak further growth should be moderate due to consumption movements along the demand curve.

Unfortunately, global circumstances have recently changed to produce several downside effects even though the above positive signs are likely to remain generally unaffected. The net effect will be more modest numbers compared to the past year. GDP growth is expected to soften to between 6 per cent and 7 per cent rather than between 8 per cent and 9 per cent as recorded this year partly because it has to be derived from a higher base.

The most serious threat to Malaysia is perhaps the present uncertainty that is clouding over the American economy to which the ringgit is hard-pegged and to where a quarter of Malaysian manufactured goods are exported. Another current concern is the declining level of the country's foreign reserves occurring over the second half of this year. The reserves stand at around the US\$30 billion mark. Export surpluses, which should have boosted the reserves, have not been able to reverse the decline brought about by causes such as the lack of foreign direct investment inflows, failure of exporters in repatriating their proceeds back into Malaysia and the performance of non-U.S. dollar foreign exchange reserves. Lower reserves affect the liquidity of the ringgit, which has to maintain its hard peg to the dollar. The result will be upward pressures on the domestic interest rates that the government hopes to keep at suppressed levels.

The sudden surge in oil prices after nearly a decade of price stability brings many downside risks. An observable effect of this is the weakening world wide demand in electronics and a declining rate in semiconductor sales which form a major proportion of Malaysian exports. Present circumstances require Malaysia to pursue its growth targets on the basis of international competitiveness which has traditionally come from cutting edge technologies brought in through foreign direct investments rather than via an indigenous knowledge base. However over the recent years many potential FDIs have been directed elsewhere such as China in particular. In response, the government has reviewed its strategies to attract FDIs alongside its quest to develop a knowledge economy via various devices outlined in the recent budget announcement.

3. Penang's Economic Goals

The challenges facing the Malaysian economy as enunciated above similarly affected Penang, perhaps even more so as Penang's economy is so heavily dependent on its export-oriented manufacturing sector. Indeed the greatest challenge is to chart a path of growth that would circumvent these risks, yet achieve a balance between the state's economic, environmental and social agenda. This, in essence, is the Sustainable Development Framework that underlies Penang's development strategy. In order to ensure that the goals of sustainable development will be systematically achieved, the State has embarked on the formulation of the Second Penang Strategic Development Plan.

In the specific sphere of economics, the overarching goal is to ensure sustainable and resilient growth by enhancing the State's economic competitiveness through the upgrading of its economic foundations such as human resources, infrastructure and utilities, transport and communication, incentives and legal frameworks as well as government services.

In view of the imminent impacts of liberalisation as a result of WTO and AFTA and the increasing competition from lower cost countries for FDI, Penang has to reposition itself in the global industrial scene. Its narrow economic base, with heavy dependence on electronics has to be broadened. Nonetheless, it should also build on its capacity and expertise in this field which has been accumulated over the years to move into higher value-added activities in the electronics sector. There is now sufficient indigenous capacity for the State to cultivate and promote "home-grown" industries rather than to continue to rely so much on FDI. At the very least, strategic alliances can be forged between the multinational corporations and the domestic industrial establishments.

The national policy to effect a shift towards the K-economy is of natural advantage to Penang as it has traditionally maintained a higher level of educational attainment than the rest of the country and more, because of its "highly-wired" state as the hub of the electronics industry in the nation. Penang's transformation to a K-economy will involve promoting the adoption of Information and Communication Technology (ICT) not only in the industry and commerce but more generally throughout the community. Taking advantage of the large electronics cluster that presently exists



in Penang, the State can be developed into a globally networked electronics business (e-biz) hub.

To achieve these goals, a more concerted effort has to be made to scale up the capacity for R&D and new technology through collaboration between the industrial establishments and the educational institutions in the State. Similarly, skills training programmes need to be expanded and upgraded to meet the manpower and skills requirements as shortages in these areas have been a hindering factor in the past decade.

The State should also look into new sources of growth such as new tourism products and better packaging of these products; agrotechnology — with the stress on downstream processing of agricultural products using modern technology; enhancing the services sector in areas such as logistics, health and education. However, it is also necessary to emphasise that Penang cannot be a jack of all trades and should focus on building on its strengths.

4. Penang's Economic Performance In 2000

Although the State has begun to formulate strategies for maintaining its economic resilience and enhancing its economic competitiveness, the old formula of development continued to work well as shown by the economic performance of the State in 2000

The Penang economy rebounded in 1999 after a contraction of 8.45 per cent in 1998. The economy has grown even stronger in 2000, achieving a growth rate of 7.66 per cent, up from the 6.35 per cent growth in 1999.

The significant growth in the Penang economy is mainly attributed to the double-digit growth in the manufacturing sector, that accounts for 46 per cent of the total state GDP. The expansion of the manufacturing sector is mainly due to the increase in production of export-oriented products as well as the influx of investments in 1999.

Table 4.1: Penang, Gross Domestic Product

	1998	1999	2000(e)	2001(f)
GDP (RM Million in 1987 prices)				
Aqri, Forestry, Fishing	223.22	225.46	227.71	228.48
Mining & Quarrying	191.06	191.06	192.97	189.48
Manufacturing	6,390.36	7,005.84	7,960.03	8,496.55
Construction	414.23	414.23	418.23	443.38
Tertiary	7,959.40	8,174.06	8,510.79	9,158.25
Total GDP in producers value	15,178.27	16,010.64	17,309.73	18,516.13
Total GDP in purchasers value	14,455.00	15,372.66	16,550.39	17,741.13
% Share				
Aqri, Forestry, Fishing	1.5%	1.4%	1.3%	1.2%
Mining & Quarrying	1.3%	1.2%	1.1%	1.0%
Manufacturing	42.1%	43.8%	46.0%	45.9%
Construction	2.7%	2.6%	2.4%	2.4%
Tertiary	52.4%	51.1%	49.2%	49.5%
Total GDP in producers value	100.0%	100.0%	100.0%	100.0%
Growth Rate (%)				
Aqri, Forestry, Fishing	-0.01%	1.00%	1.00%	0.34%
Mining & Quarrying	-23.70%	0.00%	1.00%	-1.81%
Manufacturing	-11.48%	9.63%	13.62%	6.74%
Construction	-22.98%	0.00%	0.97%	6.01%
Tertiary	-0.97%	2.70%	4.12%	7.61%
Total GDP in producers value	-6.70%	5.48%	8.11%	6.97%
Total GDP in purchasers value	-8.45%	6.35%	7.66%	7.19%

The second largest growth sector (4.12 per cent) and largest contributor (49.2 per cent) to the Penang economy is the tertiary sector, comprising the WRHR (wholesales, retail, hotel & restaurant); FIREBS (finance, insurance, real estate and business services); utilities, storage, communication and transport; and other services. Growth in the tertiary sector is mainly driven by the increase in property transactions, increase in exports coupled with positive trade balance as well as the increased tourists ringgit.

The construction sector, which was badly hit by the Asian economic crisis, has rebounded, achieving a one per cent growth in 2000. The sector, which contracted 23 per cent in 1998 remained stagnant in 1999 and only began to recover beginning 2000, with the revival of projects that were abandoned during the crisis.

Contributions from the agriculture, fishing and forestry as well as mining and quarrying sectors are rather insignificant to Penang. The resources for mining and quarrying activities in Penang are almost exhausted, while farm-lands for agricultural activities have been converted for other kinds of land-use. Although the government has put in efforts to revitalise the agriculture sector through the gazettelement of granary areas for padi and the development of deep sea fishing and other aquaculture activities, the contributions from these activities would still be insignificant to the State GDP.

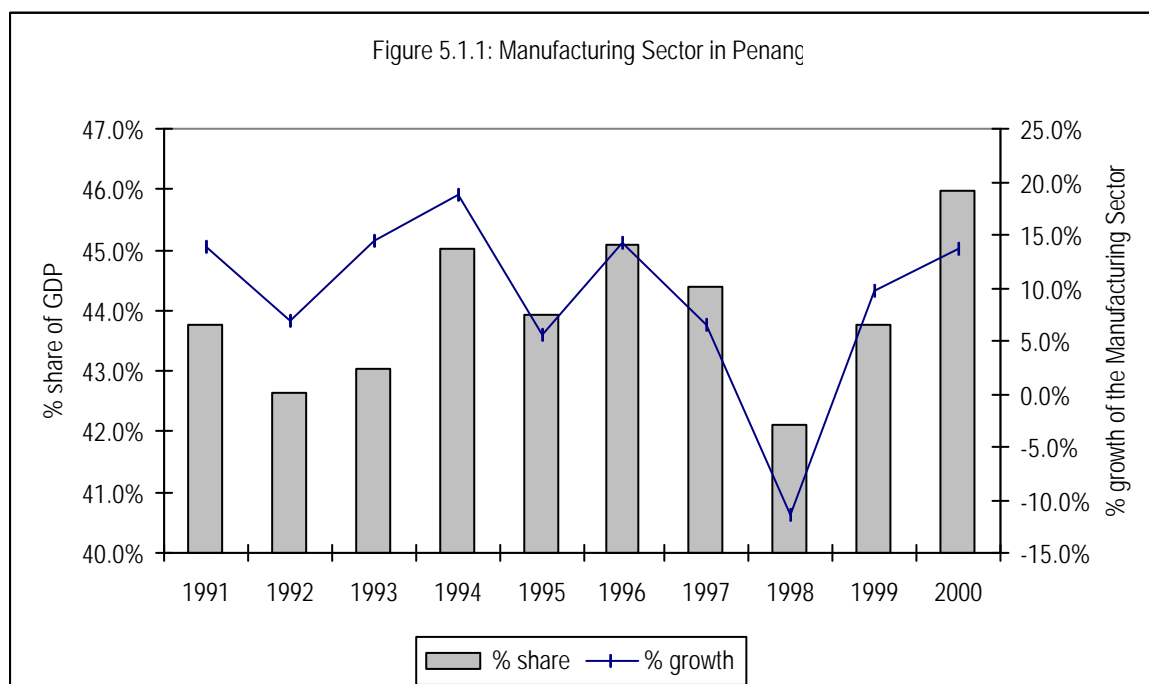
5. Performance of Penang's Major Economic Sectors in 2000

The generally healthy state of the Penang economy in 2000 as described in the previous section reflects the creditable performance recorded by the economic sectors in the State, especially manufacturing and tourism. A more detailed discussion of the performance of the major sectors of the Penang economic is contained in this section.

5.1 Manufacturing

Contribution to GDP

After registering a contraction of 11.5 per cent in 1998, the value-added of the manufacturing sector in Penang staged a turnaround and recorded a growth of 9.6 per cent in 1999. For the year 2000, the performance of the manufacturing sector is expected to have bettered that of 1999 and is anticipated to record a double-digit growth of 13.6 per cent.





Likewise, contribution from the manufacturing sector to the Penang economy dropped to 42.1 per cent in 1998 from 44.4 per cent in 1997. It gradually rebounded to 43.8 per cent in 1999 and is expected to increase further to 46.0 per cent of the Penang GDP in 2000 (Figure 5.1.1).

Production Index

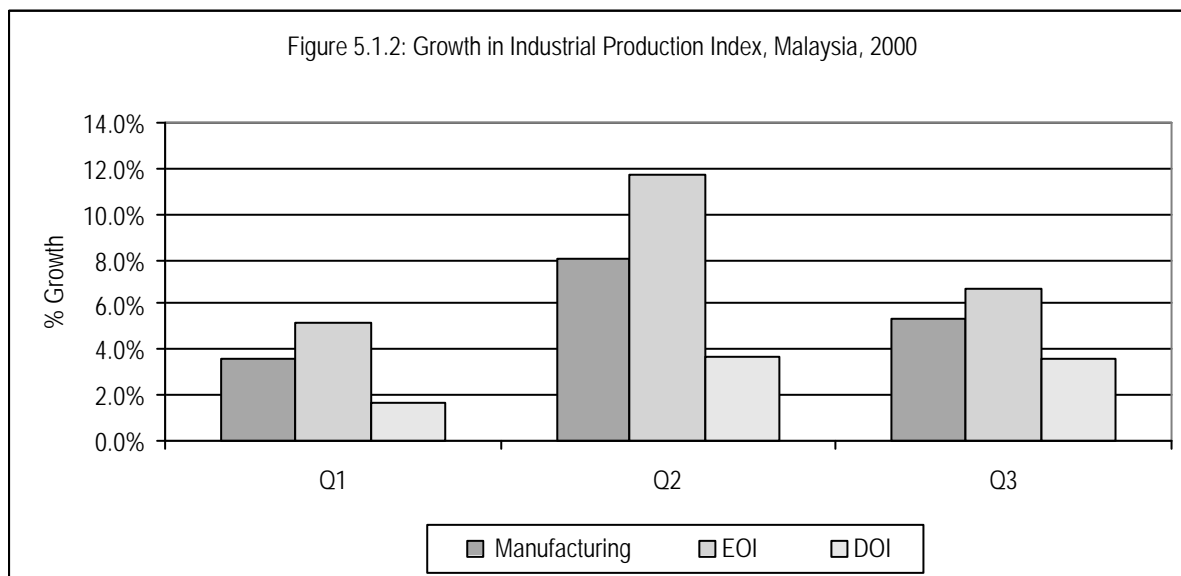
The improved performance is generally boosted by the export-oriented industries. The national industrial production index (IPI) is used here in the absence of the index for Penang. Table 5.1.1 shows that IPI for the manufacturing sector contracted between the period January – December 1997 and 1998 but increased by only 12.9 per cent during the period January - December 1998 and 1999. The IPI for the manufacturing sector increased at a more rapid pace, achieving a growth of 22.6 per cent during the period January - December 1999 and January - September 2000. The IPI for export-oriented industries though was growing at a slower pace compared to the IPI for domestic-oriented industries during the period January – December 1998 and 1999, it's pace of growth has increased significantly from the second-half of 1999 onwards, almost double that of the domestic-oriented industries. This is evidenced in the rate of growth of the IPI during the period January – September 1999 and January – September 2000. Figure 5.1.2 shows the growth rates for the IPI of the export-oriented and domestic-oriented industries during the first, second and third-quarters of 2000.

Table 5.1.1: Growth in Industrial Production Index, Malaysia

Period	Total Manufacturing	EOI	DOI
Jan-Dec 1997 -- Jan-Dec 1998	-10.3%	-7.3%	-13.4%
Jan-Dec 1998 -- Jan-Dec 1999	12.9%	12.9%	13.1%
Jan-Dec 1999 -- Jan-Sep 2000	22.6%	28.6%	15.6%
Jan-Sep 1999 -- Jan-Sep 2000	27.0%	28.4%	15.6%

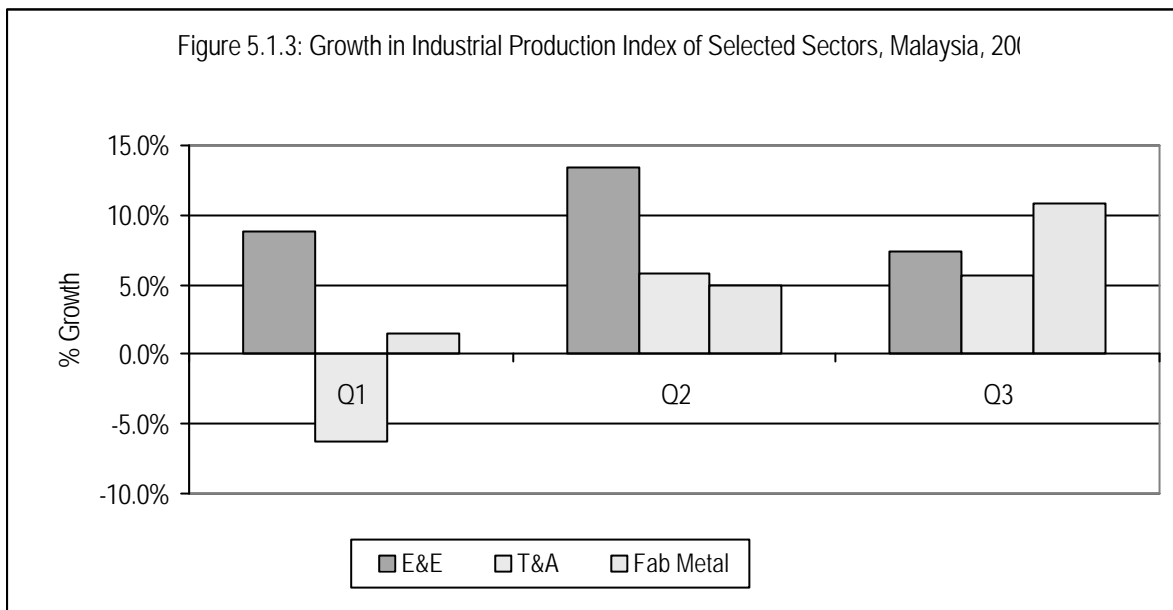
Note: EOI – export-oriented industries
DOI – domestic-oriented industries

Source: Derived from Bank Negara Malaysia



Source: Derived from Bank Negara Malaysia

The two main export-oriented sectors in Penang are basically the electrical and electronics as well as the textiles and apparel sectors. Figure 5.1.3 shows the IPI growth rates during the first three-quarters of 2000. The IPI for the textiles and apparel sector declined during the first-quarter of 2000 but improved from the second-quarter onwards. This could be mainly due to labour shortages experienced by the export-oriented apparel industries, thus the companies had to reduce their production. The shifts towards automation and labour-reduction processes by the apparel companies, as well as the approval granted to them to recruit foreign labour have helped reduce



Source: Derived from Bank Negara Malaysia

dependency on local labour, thus increasing their production.

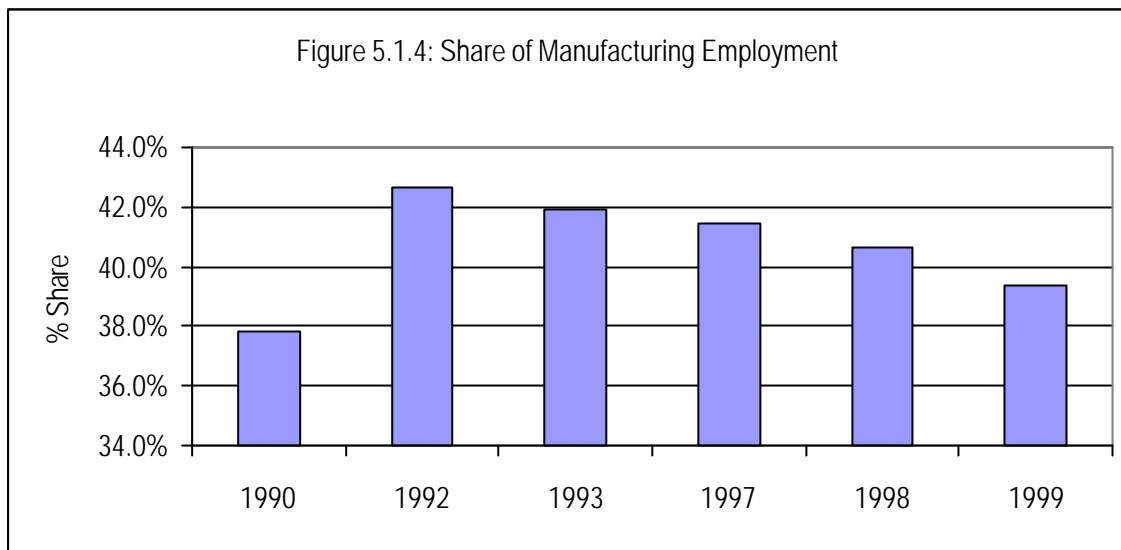
The electrical and electronics industry experienced a significant double-digit growth during the second-quarter of 2000, boosted by the increase in demand for electronics products like computers and communication equipment. However, a slower growth of the IPI was attained during the third-quarter of 2000, a result of the slowdown in the demand for these products. A lower growth of the IPI is envisaged with a global slowdown in the semiconductor, computers as well as communication equipment sectors.

The fabricated metal industry is a domestic-oriented industry although most of its output will end up as components of electrical and electronics exports or as indirect materials used in other production processes. The IPI for the fabricated metal industry suffered a 7.18 per cent decline during the period January – December 1997 and 1998. The performance of the industry improved slightly and recorded a –1.2 per cent growth during the period January – December 1998 and 1999. As the economy improved after the 1997 crisis, the performance of the fabricated metal industry improved, registering a higher growth from its lower base compared with the other major industries in Penang, especially the electrical & electronics industry.

Employment Generation

The share of manufacturing employment was around the range of 31–32 per cent during the 1980s but increased significantly to 35.9 per cent in 1989 after the recovery of the mid-1980s crisis. This was the time when local investments began to pick up and there was also a massive shift of local backyard industries into formalised industrial zones in Penang. The share of manufacturing employment increased to 37.8 per cent in 1990 and peaked at 42.7 per cent in 1992 (Figure 5.1.4). Although employment in the manufacturing sector increased significantly at 4.1 per cent per annum during the 1990 and 1997 period, its share had tapered off and declined to 39.4 per cent in 1999.

Employment in the manufacturing sector did not increase in 1999, registering a zero per cent growth that year. Table 5.1.2 compares the growth rates of manufacturing employment and the overall economic sector in Penang. The growth rate for 1998 was also lower than the average annual growth rate for the 1990 – 1997 period for the manufacturing sector. On the other hand, total employment in Penang increased by 6.0 per cent in 1998 and slowed down to 3.2 per cent in 1999. Despite the slowdown, the growth rate was still higher than the average annual growth rate for the period 1990 – 1997. This apparent anomaly is due to the increasing automation and use of labour-saving processes by the manufacturing sector.



Source: Derived from Labour Force Survey, DOS, Malaysia

Table 5.1.2: Growth in Manufacturing Employment

	1990-1997 (per annum)	1998	1999
Manufacturing	4.1%	3.9%	0.0%
Total Penang	2.7%	6.0%	3.2%

Source: Derived from Labour Force Survey, DOS, Malaysia

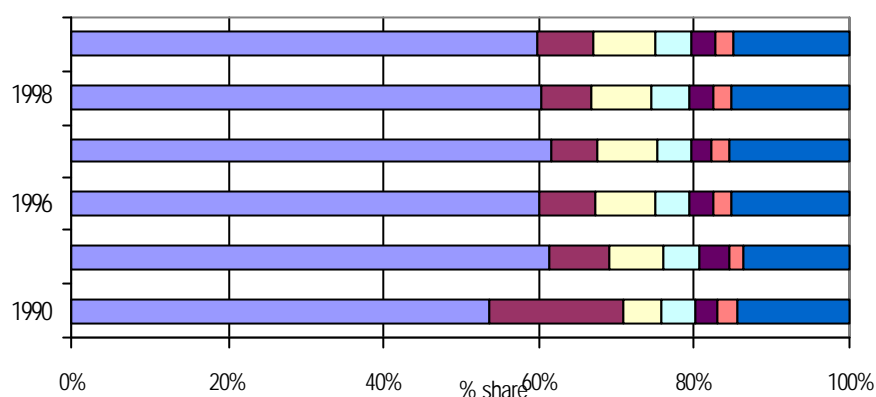
Figure 5.1.5 shows the manufacturing sector employment by sector in the Penang Development Corporation areas. The electrical and electronics sector is the largest employer in Penang's manufacturing sector, accounting for more than 50 per cent of the total employment through the ten-year period. The textiles and apparel industry came next, until it was overtaken by the fabricated metal products industry as the second largest employer in Penang's manufacturing sector in 1996. Today, Penang's manufacturing sector employment is dominated by the electrical and electronics industry, particularly electronics as well as related industries (comprising fabricated metal products, plastic products as well as the packaging industries), which account for more than 70 per cent of the total employment. Such high dependency on the electronics and related industries is a concern for Penang because the industry is very volatile to the vicissitudes of the global markets.

Industrial Investments

Table 5.1.3 shows the approved investments in Penang's manufacturing sector. Despite the economic crisis in 1998, approved investments were 84.0 per cent more than investments approved in 1997. During the 1999 recovery, approved investments grew by another 79.2 per cent over the 1998 figure. However a slowdown was recorded for the first eight months of 2000. Approved investments during the first eight months of 2000 contracted 80.6 per cent over the figure recorded for the same period in 1999. The total investments approved for the first eight months of 2000 accounted for only 18.7 per cent of the total approved in 1999.

The rationale for the influx of investments in 1998 as well as 1999 was the lower value of ringgit compared with the US dollar. Foreign direct investments, particularly the export-oriented ones are able to reap more profits from their investments here due to the lower value of the ringgit. As can be seen from the approved investments in 1999, foreign investments accounted for 96.2 per cent of the total, while local investments accounted for only 3.8 per cent. On the other hand, a slow down in investments in 2000 is mainly due to the fact that most of the investments approved in 1998 and 1999 are slowly being realised in 1999 and 2000. The slowdown in foreign direct investments could also be due to the economic slowdown in developed countries. On the other hand, there is a slight increase in local investments, thus resulting in a significant increase in the proportion of local investments in 2000, rising from its share of 3.8 per cent in 1999 to 21.3 per cent in 2000.

Figure 5.1.5: Percentage Share of Employment by Selected Sectors



	1990	1995	1996	1997	1998	1999
Others	14.7%	13.8%	15.5%	15.7%	15.4%	15.2%
Prof & sc.fic Prod	2.3%	1.9%	1.9%	2.0%	2.1%	2.1%
Rubber-based	2.9%	3.6%	3.2%	2.8%	3.2%	3.0%
Plastic Prod	4.5%	4.8%	4.6%	4.4%	4.9%	4.8%
Fab Metal	4.9%	7.0%	7.5%	7.6%	7.5%	7.9%
T&A	17.1%	7.5%	7.3%	5.9%	6.5%	7.2%

Source: Derived from Penang Development Corporation Industrial Surveys

Table 5.1.3: Approved Investments

	(RM Million)	% Growth
1997	1449.1	-
1998	2666.5	84.0%
1999	4777.8	79.2%
1999 (Jan-Aug)	4603.8	-
2000 (Jan-Aug)	891.1	-80.6%

Source: Derived from MIDA

Penang ranked 4th after Terengganu, Johor and Selangor in terms of approved investments in 1998. However, in 1999, its ranking improved to first placing. This was mainly driven by reinvestments by the existing MNCs in Penang like Intel and Agilent rather than new investments. With the slowdown in approved investments in 2000, Penang's ranking dropped to the 7th placing, after Sarawak, Selangor, Perak, Pahang, Negeri Sembilan and Johor. Investments in Sarawak and Pahang could be driven by the petroleum related industries, which is only a one-time event. On the other hand, Negeri Sembilan is gradually becoming a rising star and a competitor to Penang for investments, especially with its close proximity to the MSC and MMU.



MNC/LSI vs SMI Performance & Contribution

In the absence of the latest data on manufacturing establishments by size in Penang, national data in 1996 is used in the discussion of this section.

Although small-and medium industries (SMI) accounted for 89.0 per cent of the total number of manufacturing establishments, they accounted for only 23.6 per cent of the total output and 22.1 per cent of the value-added. SMIs also only accounted for 32.3 per cent of the workers in the manufacturing sector and paid 27.0 per cent of the total salaries and wages. Lastly, fixed assets of the SMI firms accounted for only 23.6 per cent of the total manufacturing fixed assets (Table 5.1.4).

Table 5.1.5 compares the performances of the SMIs against that of the MNCs/LSIs. Output per worker in the SMIs at RM 138,200 was much lower than the average for the manufacturing sector as well as the MNCs/LSIs. Likewise, value-added per worker at RM 33,700 was also much lower than for the overall manufacturing sector and the MNCs/LSIs. It accounted for only 59.2 per cent of the value-added per worker attained in the MNCs/LSIs.

Table 5.1.4: Contribution (%) from SMIs & MNCs/LSIs

	SMIs	MNCs/LSIs
Number of firms	89.0%	10.9%
Output	23.6%	76.3%
Value-Added	22.1%	78.0%
Employment	32.3%	67.7%
Salaries/Wages	27.0%	73.0%
Fixed Assets.	23.6%	76.4%

Source: Derived from DOS 1996, unpublished

Table 5.1.5: Performance of SMIs and MNCs/LSIs

	Overall Mfg	SMI	MNCs/LSIs
Output per Worker (RM'000)	188.7	138.2	212.9
Value-Added per Worker (RM'000)	49.4	33.7	56.9
Fixed Asset per Worker (RM'000)	77.9	56.9	87.9
Salary per Worker (RM'000)	13.2	11.1	14.3

Source: Derived from DOS, 1996, unpublished

Fixed assets per worker in the SMIs was only 64.7 per cent of that in the MNCs/LSIs. Likewise, salaries/wages per worker was also much lower than the average for the manufacturing sector and the MNCs/LSIs. At RM 11,100, it was only 77.7 per cent of the salaries/wages per worker in the MNCs/LSIs. Likewise, the number of workers in the SMIs was just a small fraction (5.8 per cent) of that in the MNCs/LSIs.

The data presented in Tables 5.1.4 and 5.1.5 indicates that contribution from the SMIs is less significant compared to the contribution from the MNCs/LSIs to the Penang economy. On the other hand, many of the MNCs would not have invested here if not for the presence of the SMIs that provide the supporting and ancillary services to them. The SMIs in Penang, particularly those that are supporting industries to the electronics industry provide the support foundation to the growth of the electronics industry in Penang.

During the midst of the economic crisis, the SMI supporting firms to the electronics industry were able to cope better than the SMIs in the other industries. This is mainly because the electronics industry was not much affected by the Asian economic crisis. However, with the anticipated slowdown in the high-tech sectors in the global market, particularly the US market, the SMI supporting firms may experience a market squeeze as opposed to the SMIs in the other sectors.

Generally, the contribution of the SMIs to the Penang economy is not as significant as the contribution of the larger companies. Similarly the impact of a downturn in the performances of the SMIs would not be as significant as a downturn in the performances of the larger companies. However, the existence of the SMIs should be preserved as it provides the foundation support to the larger companies and it is also a determining factor for investment location of the MNCs. In short, the SMI supporting industries are a determining factor in Penang's competitiveness.

5.2 Tertiary Sector

Tourism

The tourism industry in Penang, the second largest revenue earner after manufacturing, continues to do well in 2000, with the total number of visitors expected to hit the 3.75 million mark, up from 3.52 million in 1999. This is a continuation of the upward trend in tourist arrivals which was temporarily subverted in the crisis years of 1997 and 1998. Table 5.2.1.1 shows the tourist arrival figures for 1996-2000.

Table 5.2.1.1: Estimated Total, Domestic and International Arrivals in Penang, 1996-2000

	1996	1997	1998	1999	2000
Estimated total visitor arrivals for the state	3,444,148	3,167,239	3,251,141	3,519,660	3,529,552
Estimated total domestic visitors	44.24%	47.80%	39.10%	41.48%	34.2%*
Estimated total international visitors	55.76%	52.20%	60.90%	58.52%	65.8%*

*Based on figures for third quarter of 2000

Source: Tourism Development Division, PDC

The average occupancy rate for the hotels in Penang during the 3rd quarter of 2000 (Q3'00), was 61.4 per cent compared to 62.8 per cent for the same period in 1999. The average occupancy rate for the beach hotels showed an improvement of 8.3 per cent over the same period, however that for the city hotels registered a 7.2 per cent decline. An important contributing factor to the high occupancy rate for the beach hotels during Q3'00 was the convocation of Universiti Sains Malaysia which attracted a large number of domestic visitors to the State. The drop in occupancy rate for the city hotels, on the other hand, can be attributed to the increase in the total number of rooms available in several city hotels. (Q3'00 figures are used here as the year 2000 data is not yet available.) Table 5.2.1.2 shows the trends in occupancy rates over the past five years.

Table 5.2.1.2: Average Hotel Occupancy Rates, 1996-2000

	1996	1997	1998	1999	Q3'00
Average Occupancy rate	61.64%	59.40%	60.35%	59.66%	61.42%
Average Occupancy for Beach Hotels	59.61%	56.93%	66.07%	62.90%	74.31%
Average Occupancy for City Hotels	64.98%	63.29%	52.35%	56.26%	52.19%
Number of registered guests recorded	1,966,942	1,923,781	1,738,385	2,169,871	N/A

Source: Tourism Development Division, PDC

Among the international tourists, the highest spending visitors come from Japan. However, the percentage of Japanese visitors have dropped slightly from 8.6 per cent of the market mix in Q3'99 to 7.7 per cent in Q3'00 – ranking third behind the United Kingdom (10.6 per cent) and Australia (9.4 per cent). A large proportion of these international tourists (50.7 per cent) are repeat visitors. A comparison of the market mix of tourist arrivals for Q3'99 and Q3'00 is shown in Table 5.2.1.3.

The average length of stay of tourists in Penang is presently 3.5 nights for international tourists and 3.8 nights for domestic visitors and it is the State's policy to attract longer-stay visitors. Most tourists have been lured to Penang by its reputation as a shopping and food haven as well as beach paradise. However, pre- and post visit polls show that the reality had fallen slightly short of expectations for these tourists. Most of the expenditure of the tourists went to shopping and accommodation.



Table 5.2.1.3: Market Mix, July-September, 1999 & 2000

	July-September, 1999	July-September, 2000
	%	%
Malaysia (domestic)	39.3	34.2
United Kingdom	9.8	10.6
Australia	8.7	9.4
Japan	8.6	7.7
Middle East	6.7	6.8
Benelux (Netherlands)	0.2	6.3
Singapore	4.6	4.5
Indonesia	3.8	3.3
USA	2.6	2.9
Hong Kong	2.6	2.0
Taiwan	2.1	1.8
Germany	1.0	1.3
Thailand	1.8	1.2
Mainland China	0.7	1.1
Scandinavian countries	0.2	0.5
Italy	0.3	0.3
Others	7.0	6.1
Total	100.0	100.0

Source: DCT Consultancy Services Sdn Bhd

In terms of choices of accommodation, international visitors prefer city hotels (40.4 per cent) to beach hotels (31.0 per cent) but the majority of domestic visitors tend to opt for staying with friends and relatives (52.4 per cent). The findings of the Q3'00 survey shows that 56.7 per cent of international visitors expressed satisfaction with the accommodation facilities and services.

Trade

Trade conditions for Penang in 2000 were generally favorable, due to several factors, including: i) a favorable pegged exchange rate, ii) a strong US economy, iii) strong oil prices, and iv) the strong recovery of the Malaysian economy. For the nation as a whole, imports for the first six months of this year rose 29%, and exports rose 19% from the same period for the previous year. Latest data from the Department of Statistics shows national exports at RM 310,391 million, and imports at RM 261,072 million for the period Jan-Oct 2000; a surplus of RM 49,319 million.

In October, exports grew 15.5 per cent y-o-y, down from 23.9 per cent in September. It is the slowest y-o-y growth since April. Imports for the same period grew 19.6 per cent, down from 30.5 per cent in September, and the slowest growth since January. However, these figures may just reflect the slowing down and uncertainty of the future of the US economy, which has long been the engine of the world economy. The US economy is the biggest market for Malaysian exports, accounting for about 21 per cent in the first 10 months of 2000.

External Trade (RM million)	1999	Jan -Oct	
		1999	2000
Total Exports	321,560	259,446	310,391
Total Imports	248,477	200,944	261,072
Balance of Trade	73,083	58,503	49,319

Source: Department of Statistics, Malaysia

Major Exports (RM million)	1999	Jan -Oct	
		1999	2000
Rubber	2,343	1,909	2,162
Palm Oil and Palm Based Products	19,511	16,282	12,260
Crude Petroleum	9,306	7,060	11,481
Liquefied Natural Gas	7,002	5,169	9,149
Timber (Saw Logs & Sawn Timber)	5,465	4,458	4,683
Electrical and Electronic Products	185,247	149,528	181,931
Articles of Apparel and Clothing Accessories	8,559	7,130	7,130
Wood Manufactures (Plywood & Veneer)	4,774	3,943	3,650
Other Manufactured Goods and Articles	37,098	30,230	35,778

Source: Department of Statistics, Malaysia

The electrical and electronics sector made up the bulk of Malaysia's exports, comprising RM 181,931 million, or 58.6 per cent of total exports for the first 10 months of the year. This is an increase of 21.7 per cent from the same period last year. Other manufactured goods and articles came in second, at RM 35,778 million, or 4.3 per cent, and palm oil and palm-based products third, at RM 12,260 million, or 1.5 per cent. Crude Petroleum was a close fourth at RM 11,481 million, or 1.4 per cent.

The greatest challenges facing Penang in this area are the AFTA and WTO agreements, which will see a lowering of tariffs in the near future. With most tariffs set to be reduced to no more than 5 per cent by 2003 under the AFTA agreement, locals will face stiffer competition from outside. It remains to be seen how successfully steps taken to improve efficiency will be implemented. As local companies are forced to increase their productivity in order to stay competitive, this may pose some problems in the short run, but should benefit us as a whole in the long run.

Some last points of concern would include world and regional trends. The direction of the US economy is particularly important, as the US is Malaysia's most important export market. Were it to falter ungraciously, that is, suffer a hard landing, times could be bleak indeed for the export-driven Malaysian economy. Also Malaysia's positioning within the region is just as important, as the world continues to move towards regionalized markets. Any shifts that cause Malaysia to 'lose its edge' in relation to our regional neighbors could have wide-ranging effects indeed.

Property

The Malaysian property market cycle showed an upward swing this year, attributable to renewed confidence among investors. The property sector saw a slow rise over the year and was the main driver of construction activities. On account of strong demand, prices of landed property began to recover up to 10% -15% below pre-crisis levels. The prices of landed property have remained stable compared to other residential properties due to shortage of landed properties. The total number of properties transacted in Penang as at Jan-June 2000 was 7,718 transactions valued at RM1.523 billion, showing an increase of 27.9%.

Table 5.2.3.1 shows that the number and value of transactions for residential properties increased in the first half of 2000 when compared to the same period the previous year (1st Half '99) but slipped slightly when compared to the second half of the previous year (2nd Half 1999). However, significant increases were noted in the number of transactions and values for both the commercial and industrial sectors when compared to both the 1st Half '99 and 2nd half '99.



Properties launched during the first half of the year received positive responses as evidenced by successful launches and relaunches of several projects on the Island such as Mutiara Idaman in Jelutong and the Regency, Gurney Drive. However, there still remains overhang from previous quarters for certain residential properties especially apartments and condominiums in Daerah Timur Laut, Seberang Perai Tengah and Seberang Perai Utara.

Table 5.2.3.1: Transactions and Values by Property Sector

Items	Residential	Commercial	Industrial
No. of Transactions	5,753	634	275
% Change Jan-Jun'00/Jan-Jun'99	29.5	17	53.6
% Change Jan-Jun'00/Jul-Dec'99	-2.1	9.7	10
Value of Transactions (RM Billions)	0.85	0.24	0.15
% Change Jan-Jun'00/Jan-Jun'99	29.9	12.3	41.3
% Change Jan-Jun'00/Jul-Dec'99	-2.6	26.8	44.2

Source: Jabatan Penilaian & Perkhidmatan Harta, Malaysia Jan-Jun 2000

The oversupply of residential properties on the Seberang Jaya side has been easy to clear. However, the situation is expected to change with the completion of 15,000 residential units this year. It is expected that some 40,000 residential units will enter the market in the next 3 years while the market absorption rate is at 5,000 units per year.

The retail and commercial uptake on Penang Island received only lukewarm response. With the recent completion of the Prangin Mall and the addition of Bayan Shopping Mall, Gurney Mall and soon to be completed Makro at Sg. Dua, an additional 1.7 million sq. ft of leasible space was released into the Penang Island retail market.

On the Seberang Perai side, it is evident again that overhangs for commercial space are found in the high developmental growth areas in Seberang Perai Tengah and Seberang Perai Utara. The sprouting of mega shopping complexes in the Bukit Mertajam and Perai areas in the last few years have added to the previous overhangs. Poor occupancy rates of shopping centres of around 35% were recorded in these areas. Mid-year statistics on overhang puts Seberang Perai Tengah on top of the list with 62% overhang for the whole state. The newly completed Sunway Business Park will further aggravate the market.

Mid-year statistics on overhang for purpose built office space puts Daerah Timur Laut at 74% and Seberang Perai Tengah at 15%. Occupancy rates hovered around 69%. Another 1,200 shop-offices entered the market with the bulk in Seberang Perai Selatan further aggravating the oversupply situation in this district.

The industrial property sector saw strong demands of SMI factory space in the Bayan Lepas Industrial Zone. This is because the manufacturing sector continues to be one of the strong sectors contributing to the economic growth of Penang. Penang has been able to attract much foreign direct investments in 2000. However, the occupancy of multi-storeyed industrial complexes remains low and owners are now more realistic when fixing both sale and rental prices. On the Seberang Perai side, demand for terrace and semi-detached factories remains low and continue to register low occupancy rates as well. However, factories at Permatang Tinggi, Valdor and Bukit Panchor have gradually found tenants.

The property market in Penang remains under stress although the uptake and prices of landed property is on the upward trend. This trend is expected to continue over to the next year. The uptake for condominiums and apartments remains sluggish. There has not been much improvement in the take up rates of commercial space and the pace is too slow to absorb the overhang. Take up rates for office space is still slow despite low prices and rentals. The situation is expected to remain in favour of tenant and buyers over the next year.

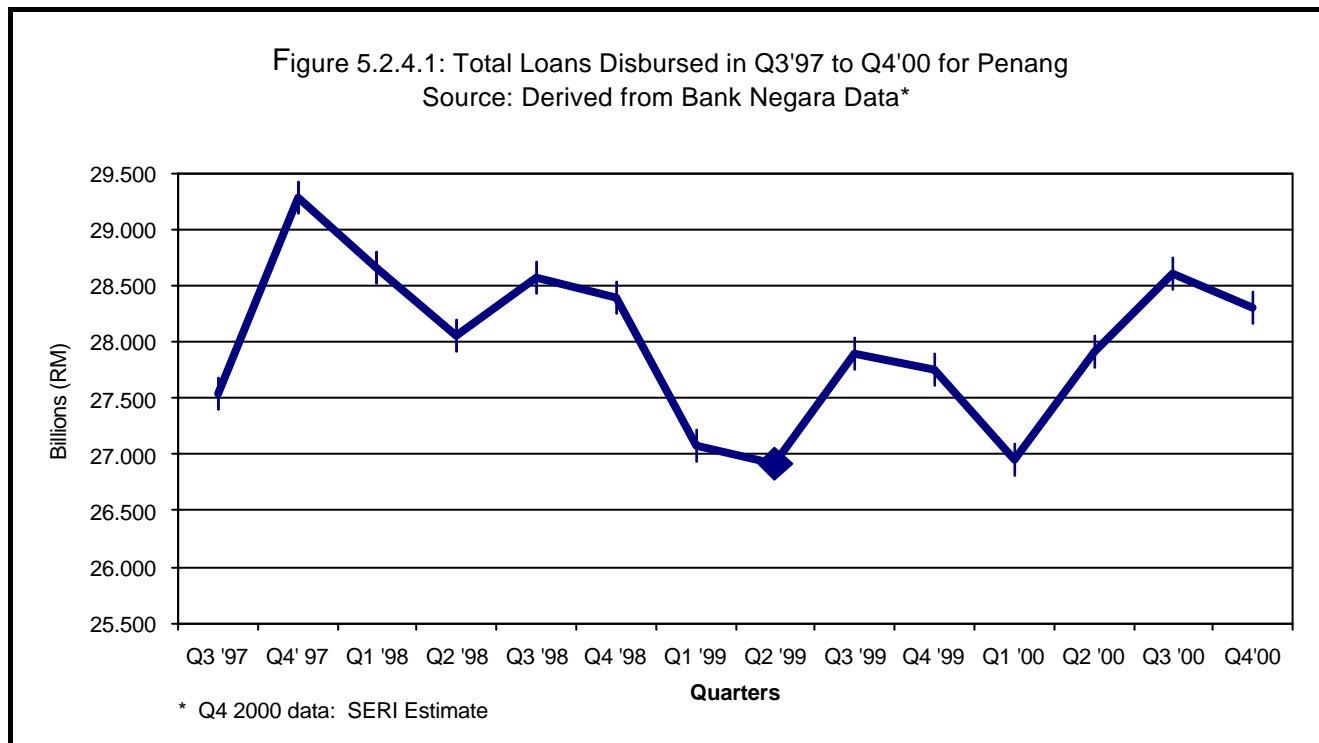
It is hoped that the revival of several mega projects (such as the Bayan Bay Marina & Leisure Resort, the Tanjung Tokong land reclamation project for 980 acres for mixed development) on the Island together with infrastructure projects (such as the widening of the roads from Bagan Jermal to Tanjung Bunga, the 4.7 km Jelutong Expressway) will act as catalysts for the property market.



Local authorities have to be circumspect in the approval of new projects as there is a risk of over supply especially in the high-rise residential sector, commercial spaces in shopping complexes (for instance the uptake in Megamall remains sluggish) and office space. The present situation will be further aggravated if approved projects and those under construction come into supply soon. The most effective control to prevent a property market crash in Penang is the prudent approval of new project application and starts. NAPIC should continue to monitor the overhang situation in Penang and give periodical feedback to the relevant authorities who in turn must convey the implications to property developers.

Finance: Loan Disbursements

The Malaysian economy is on the road to recovery. Penang with its high export economy should also reflect this upward trend. Recent Bank Negara statistics on loan disbursement in Penang released for the third quarter of 2000 show that there has been a marked increase in total loans disbursed, reflecting the recovery in the Malaysian and Penang economies alike. This increase represents a 2.5% rise over the previous quarter and a 2.6% rise compared to the same quarter in the previous year (Q3'99). This rise compensated for the dip in the first quarter of 2000. This strong recovery is fuelled by activity and transactions in the property, manufacturing, wholesale, retail, restaurant, hotel, transport, storage and communication sectors. The total value of loans disbursed in Penang (Q3'00) stood at RM 28.6 billion. Total loans disbursed in Penang have been on a rising trend since Q2'00. See Figure 5.2.41.



Loans disbursed to the manufacturing sector constituted 28.7% followed by the residential property sector (17.1%), WRRH (12.2%), non-residential property sector (7.9%), construction sector (6.0%), FIREBS (4.75) and others (23.3%).

Property & Construction Sectors

Loans to the residential property sub-sector surged by 10.9% this quarter (Q3'00) to RM 4.9 billion when compared to the same quarter the previous year (Q3'99). On a quarter-to-quarter basis, Q3'00 was higher by 0.84% when compared to Q2'00. This upward trend was evident since Q3'97.

Loans to the non-residential property sector rose by 0.67% to RM 2.26 billion compared to Q2'00 and fell by 5.84% when compared to the same quarter in 1999. This was a result of the overhang of non-residential property such as commercial spaces and office space in Penang. The uptake of these properties was slow, as investor sentiments remain weak.



Loan disbursement to the construction sector expanded by 3.28% in the third quarter of 2000 to RM 1.7 billion. In comparison it rose by 2.23% compared to the same quarter last year. This showed that the construction industry improved slightly in Penang.

Manufacturing Sector

On a quarter-to-quarter basis, loans disbursed for the manufacturing sector in Penang for Q3'00 was higher by 3.63% amounting to RM8.22 billion when compared to the previous quarter (Q2'00). It was however, only 1.84% higher when compared to the same quarter in 1999. The upward trend for this sector began in Q1'00.

These statistics are very much in tandem with the upward trend of manufacturing sales for the first half of this year. Along with this rise, employment, salaries and wages in this sector were also up. The strong growth of the upward trend for the manufacturing sector was expected due to increased exports in this quarter. Exports of electrical and electronic products, which accounted for 58.6% of all national exports also rose. The improvement in productivity was not surprising since output generally increased faster than employment costs as the economy came out of recession.

Wholesale, Retail, Restaurants and Hotels (WRRH)

Loan disbursement to the Wholesale, Retail, Restaurants and Hotels sectors was up by 5.19% on a quarter-to-quarter basis (Q3'00 compared to Q2'00) amounting to RM3.5 billion. There was, however, a sharp surge in loans of 13.45% when compared to the same quarter the previous year (Q3'99). This upward trend was evident since Q1'99. This is also an indication that domestic spending has picked up as the Malaysian economy slips out of recession.

The retail industry is expected to garner a significant growth of 12.5% this year, according to the Malaysian Retailers Association. This is a significant rise compared to the same quarter last year. The deferment of the ASEAN Free Trade Agreement to 2005 from 2003 was a supporting factor that would give the retail industry ample room for business improvement. This means that businesses should take advantage of this time to be more competitive.

Transport, Storage and Communication

Spurred by the upward swing of the economy and the revitalisation of related sectors such as the manufacturing; the transport, storage and communication sectors loans disbursement was up by 2.81% on a quarter-to-quarter basis amounting to RM 0.55 billion. When compared to the same quarter the previous year, growth was even more outstanding at 10.09%. Penang's strong export manufacturing sector has definitely played an important role in the dynamic recovery of the transport, storage and communication sub-sectors. This upward trend was noticed since Q3'99.

Vehicular Loans

The increased activity in the transport sector also saw a parallel 4.74% increase on a quarter-to-quarter basis for loans disbursed for purchase of vehicles, which amounted to RM2.7 billion. Upon comparing Q3'00 to Q3'99 the increase was 4.24%.

Finance, Insurance, Real Estate & Business Services (FIREBS)

Loans to this sector amounted to RM1.3 billion. When compared to the previous quarter (Q2'00), the amount fell by 3.36% and 16.29% when compared to the same quarter last year. Loans disbursed to this sector has been slipping steadily downward since Q2'98.

Implications

The general public in Penang is beginning to regain their confidence in response to the economic measures taken by the Government, albeit, slowly. This is reflected in the willingness to make long-term commitments and purchases of residential property. Of course, this too has been given a boost by 2 house ownership campaigns.

The construction sector is yet to recover fully as major infrastructure projects in Penang have still not been fully implemented (Butterworth Outer Ring Road and Penang Outer Ring Road/Jelutong Expressway) or have just taken off, such projects including the widening of road at the Bagan Jermal/ Hillside.

The Wholesale, Retail, Restaurant and Hotel sub-sectors are also recovering and this is evidenced by an increased domestic demand for them. The Malaysia Shopping Carnivals have given a great boost to stimulate domestic spend-



ing in these sub-sectors.

Support from the manufacturing and the rest of the tertiary sectors gave much stimulus to the local economy and this is observed in the willingness to take out loans for the expansion of operations and activities in the last quarter (Q3'00). However, Q4'00 data is expected to slow slightly to about RM28 billion, reflecting seasonal trends and the uncertainty surrounding the future of the US economy.

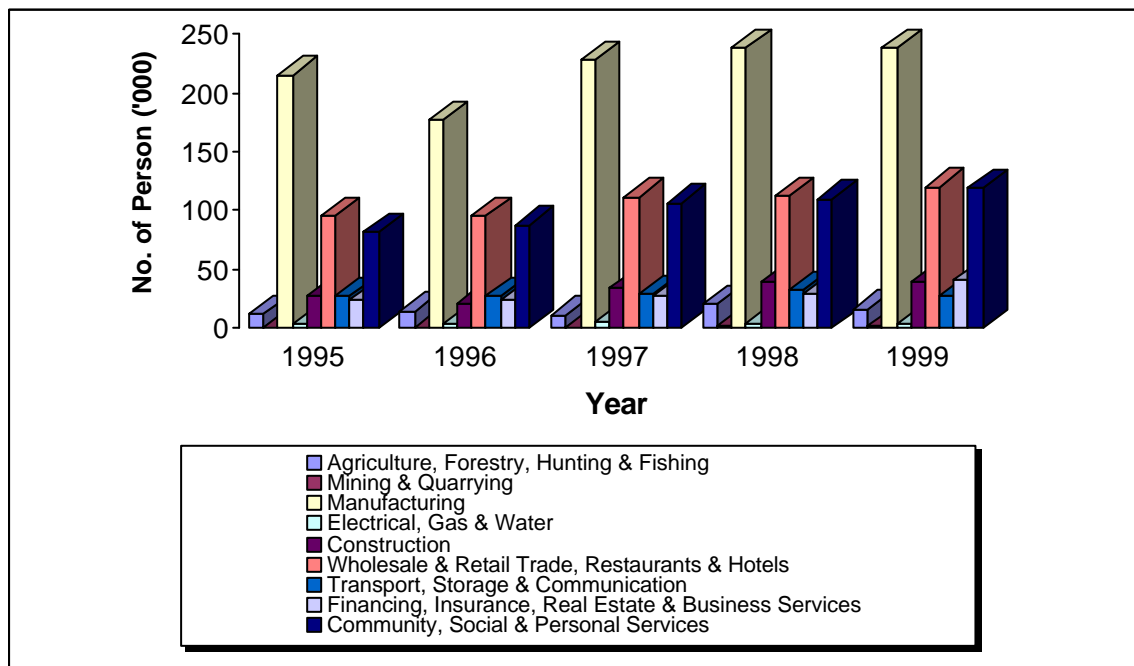
6. Human Resources

The labour force participation rate in Penang has been fluctuating over the past ten years, but within the range of 60-69 per cent. The male labour force participation rate has held steady at around 83 per cent but the female participation rate has risen significantly, from 49.2 per cent in 1990 to 55 per cent in 1999. Due to the bouyant economy, unemployment rate in Penang has been extremely low in the past decade, in fact the State was constantly faced with a problem of labour shortage. Unemployment was at its lowest in 1996, at 0.7 per cent but has climbed up to 2.4 per cent in 1999. However, even in the depths of the economic crisis, the unemployment rate was insignificant, at 1.1 per cent in 1997 and 2.3 per cent in 1998.

Industrial Employment Trend

The three industries which employed the most workers in Penang over the past five years (1995-1999) were from the manufacturing sector (39.4% - 44.3%) followed by wholesale & retail trade, restaurant & hotels (19.2% - 21.1%) and community, social & personal services (16.7% - 19.7%). Figure 6.1 shows the distribution of employment by industry for this period.

Figure 6.1: Employed Person by Industry - Penang (1995 - 1999)



Source: Derived from DOS

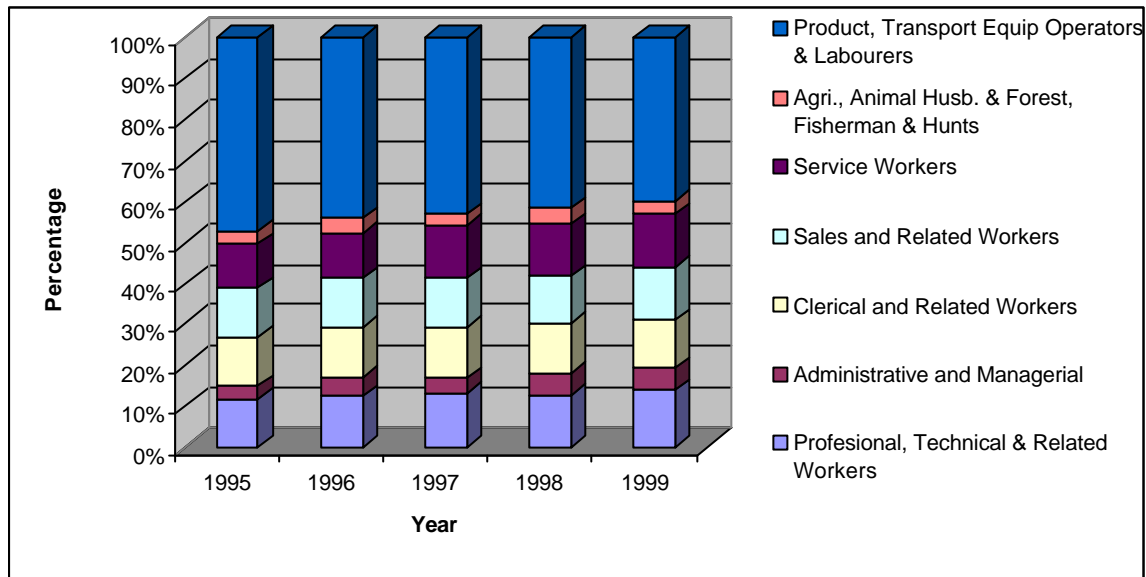
Occupational Employment Trend

The majority of the human resources in Penang comprises production operators & labourers who made up 39.8 per cent of total employed persons in 1999. This was a decrease, however, from the 1995 figure of 47.0 per cent. The subsequent four largest categories of workers, viz. professional and technical workers; sales and related workers; services; and clerical showed only marginal differences in their share of total employment, with the percentage ranging from 14.0 per cent for the first to 11.8 per cent for the last in 1999. Figure 6.2 shows the percentage dis-



tribution of employed person by occupation in Penang for the years 1995 to 1999.

Figure 6.2: Employed Person by Occupation – Penang (1995 – 1999)



Gender Employment Trend

As mentioned earlier, the female labour force participation rate has been recording a definite upward trend over the past decade. The female labour force made up 40.2 per cent of the total labour force in Penang by 1999, up from 37.7 per cent a decade ago. Unemployment rate for women also saw a decline from 3.4 per cent to 1.9 per cent over the same period. In contrast, the unemployment rate for men saw a slight increase from 2.4 per cent in 1990 to 2.7 per cent in 1999.

Unfortunately, there is no gender breakdown in the data for employment by occupation, hence it is not possible to make comparisons in terms of the career prospects for men and women or in terms of wage differentials. However, it well-known that for the two major manufacturing industries in Penang, electrical & e lectronics and textiles and apparel, the production level workers are predominantly female.

Job Market

The job market in Penang for the period of January-July 1999 declined significantly with the number of new job vacancies reported to the Manpower Department decreasing by 73.4%. Indeed, Penang fared the worst among all the states in the country in this regard. The number of registrants for jobs, however, increased by 6.2% to 1,395 registrants in the same period as shown in Table 6.1.

This report has been based on 1999 figures as the 2000 figures are not yet available. However, the situation in 2000 is not markedly different from that of 1999. This might not be true, however, of 2001 as the softening of the U.S. economy, and especially the electronics sector can potentially have dire consequences for Penang.

Table 6.1: Penang – Comparison of Active Registrants and New Vacancies

Active Registrants*			New Vacancies		
July 1998	July 1999	Change (%)	Jan-July '98	Jan-July '99	Change (%)
1,313	1,395	6.2	13,907	3,703	- 73.4

* Cumulative figures

Source: Economic Report 1999/2000
Manpower Department, Ministry of Human Resources



7. Outlook For 2001

Economic growth in the state may slow down despite robust recovery in some of the economic sectors. The overall GDP for the state is projected to grow by 7.19 per cent in 2001, slightly lower than the 7.66 per cent growth in 2000 (see Table 4.1), but higher than the growth rate projected by MIER (NST 19th & 20th December) for the nation at 6.3 per cent.

The Penang GDP growth for 2001 would be driven by the growth in the tertiary sector, which is forecasted to increase by 7.61 per cent. Simplification of housing and other loans approvals, are expected to provide the impetus for growth, stimulating more transactions. The tourism sector will continue to be vibrant, as Penang remains a lower cost destination than other comparable locations.

Growth in the manufacturing sector is envisaged to slow down to 6.74 per cent, down from the double-digit 13.62 per cent in 2000. This deceleration in growth is mainly to be attributed to the slow down in the global market, particularly the computer and semiconductor sectors. This situation is further aggravated by the recent warnings from global multinational corporations regarding poorer performances in the immediate future. Penang's manufacturing sector being predominantly export-oriented will suffer the impact of this slowdown and because it has to be derived from a higher base in 2000, growth in the manufacturing sector will drop by half the rate of 2000. As the manufacturing sector would still contribute to almost 46 per cent of the state GDP, the slow down in the manufacturing sector will affect the overall growth of the Penang economy.

The construction sector is anticipated to experience buoyant growth of 6.01 per cent in 2001 albeit from a lower base in 2000. The increase in property transactions is expected to propel the growth of the construction sector. In addition, private sector investments in the development of infrastructure and property (industrial, commercial and residential) sectors are envisaged to contribute to further growth in the construction sector.

The contributions from agriculture, fishing and forestry as well as mining and quarrying sectors would still be insignificant. Growth in the agriculture sector is expected to decelerate while the mining and quarrying sector is expected to contract. The lack of resources in the state would eventually be the ultimate reason for a possible cessation of these economic activities in Penang.

8. Conclusion

Malaysia, and by extension, Penang has done remarkably well in the aftermath of the Asian Financial Crisis and has managed economic recovery when many thought its ways were unwise. Thus looking through indicators over the past year the numbers were encouraging, demand as well as investments are up, GDP growth is up, industrial production is up, exports up and the current account a healthy surplus. One would wish these could continue at least to a point when all the signs of a weak economy no longer exist. Sadly it is more than likely that a slower economy will be the case for 2001. In Penang, it might get a bit tougher still as the slow down in electronics worldwide have already begun. But there should be a sense of optimism because the country has come this far up the road economic rejuvenation had plunged. Due to recovery efforts, many of the critical factors of production are in their strategic places. The level of preparedness is such that growth need only be moderate during the year ahead. However, because 2001 is fraught with uncertainties, there is need for caution as well as flexibility so that plans can be adapted midstream as events unfold and circumstance alter. §



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