

RapidPenang – The First Step Towards Integrated Public Transportation System in Penang

October 2007
Volume 9, Issue 10

PP14554/4/2008



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Introduction

The Northern Corridor Economic Region (NCER) aims to transform Penang into an integrated logistics hub. Among the projects in the bundle include the monorail, the second bridge, the Penang Sentral, as well as the RapidPenang bus services. The initiative is very much welcome by the people of Penang. Over the years, Penangites have experienced the never-ending traffic woes, inefficient public bus services, the reluctance of taxi drivers to implement the meter system, etc. It may not be too naïve to say that the most highly anticipated project by Penangites is to see succeed in the integrated public transportation system.

As indicated by some concerned citizens, the lack of an efficient public transport planning for the State has created a whole generation of car and motorcycle dependant citizens as well as a private car dependant urban environment.

Currently, according to the Chief Minister of Penang, there are only about 10 per cent of Penangites using the public transport, but the State expected at least 60 per cent of Penangites to use public transport within the next five years¹, once the various major logistics and infrastructure projects under the NCER have materialised in the State. This is probably an over optimistic expectation.

One of the prominent economic consultants noted that, “an integrated public transportation system is crucial to the state’s future growth. The NCER’s logistics and infrastructure projects, if successfully implemented and maintained, will make Penang more liveable and bring about an improved quality of life. This is important if we are to attract investors, knowledge workers and foreigners for the Malaysia / Penang My Second Home programme”.

This article, nevertheless, would not assess the overall public transportation system in Penang. Instead, it attempts to briefly look into part of the public transportation system - the public bus services, provided by RapidPenang in the State, its implementation and highlight some of the challenges Penang faces.

A Brief Background to the Introduction of RapidPenang Bus Services

The State Government’s initial plan in 2006 was to request for a soft loan from the Federal Government to purchase the buses. The Federal Government approved a loan of RM50 million. After the loan was approved, the State Government had twice approached RapidKL to operate the bus system in Penang. However, at that juncture, RapidKL indicated that they were very busy setting up and fine tuning the operation in Klang Valley; and could only offer their advice. The State then went ahead to form Bas Negeri Pulau Pinang (BNPP).

¹ *The Star*, August, ‘CM upbeat on bus service’, by Christina Chin

Approval was also obtained from the State Legislative Assembly for permission to borrow money up to RM200 million for the purchase of buses. Open tenders were called for the operation of the bus system in Penang of which 11 companies applied and several companies were short-listed. The State Government also called for tenders to purchase buses. Companies such as HINO and TATA were considered. Despite all this efforts, the State Government still considered a system like RapidKL as the best option for Penang.

In February 2007, the Chief Minister of Penang directly appealed to the Prime Minister to consider a system like RapidKL for the operation of public bus services in Penang. The Prime Minister agreed. With the appointment of RapidKL to implement a similar system for Penang, the Federal Government provided funding through Syarikat Prasarana Nasional Berhad (SPNB) to purchase buses and set up the operation.



Earlier, Rangkaian Pengangkutan Integrasi Deras Sdn Bhd (RapidKL) which has considerable experience in running integrated bus services and LRT systems in Klang Valley was requested by the Ministry of Finance to help set up the operation of a public bus services in Penang. Later, RapidPenang, a company set up by Syarikat Prasarana Negara Berhad (SPNB), was appointed to provide the public bus services in the State. Syarikat Prasarana Negara Berhad (SPNB), a registered company under the Ministry of Finance, owns the assets including buses and facilities.

On 1st April 2007, the Penang State Government under the portfolio of YB Dato Dr Teng Hock Nan formed the Penang Public Transport Consultative Forum (PPTCF). This consultative forum on transport in Penang aimed to gather inputs and feedback from the various stakeholders for transport planning purposes in Penang. The members of this Forum included representatives from Penang based NGOs such as the Sustainable Transport Environment for Penang (STEP), Penang Heritage Trust (PHT), Third World Network (TWN), Consumers' Association Penang (CAP), Sahabat Alam Malaysia (SAM), ALIRAN, Bus Users' Group (BUG), SUARAM Penang and the Sustainable Independent Living & Access (SILA) network.

The existing bus operators are allowed to continue with their services to complement RapidPenang. These bus operators would also ply between the island and the mainland. The RapidPenang bus service started in early August 2007.

A transport hub has also been established in Butterworth to be the focal point for buses from the mainland i.e. Nibong Tebal, Bukit Mertajam and Kepala Batas, to the Penang Island via the Penang Bridge. This will provide opportunities for people to use public transport and leave their vehicles on the mainland.

Other transportation hubs are also being identified on the Island. These will eventually complement the monorail system.

As a step to encourage the use of public transport, a number of measures have been planned. Roadside parking will be reduced in certain routes and parking fees will also be increased to encourage the use of public transport.

The launching of the RapidPenang bus service was held on the 31st July 2007 in Butterworth by the Prime Minister. After the launching, all buses in Seberang Perai and Penang Island started their operations simultaneously. To allow the public to try out the bus system, the services were free of charge for 3 days, from 31 July, 1st & 2nd August. Brochures and bill boards at major terminals displayed information of the service. About 100,000 pamphlets were printed for distribution. Personnel were also stationed at terminals to provide assistance to passengers .

An information counter has been set up at Weld Quay and KOMTAR on 1 Nov 2007. RapidPenang is working with MPPP to operate a booth at KOMTAR. Complaints can also be emailed to careline@rapidpg.com.my. A hotline will also be set up.

Internally, RapidPenang is preparing a training program for their drivers. Training for bus drivers include the bus safety, passenger courtesy, maintenance, familiarization with bus routes etc. The first and second batches of bus drivers have been provided with training on road safety, vehicle maintenance and courtesy. All bus drivers will undergo a retraining every 6 months which will emphasize on safety and courtesy. The first and second batch of drivers will also be issued with uniforms.

A 50% discount is being offered to senior citizens (over 60 years old), students under 12 years of age, and students above 12 years old in uniforms. University students will not receive discounts but are allowed to purchase season tickets.

Senior citizens are required to register for a RapidPenang discount card by providing two photographs, a photocopy of the IC and the completed application form. These can be submitted at KOMTAR and welfare offices throughout the State.



There has been an overwhelming response from the elderly over the first few days. The cards could not be issued on the spot due to the large numbers of applications. The issuing of cards took about a week to process initially.

Current Services

RapidPenang bus service is currently plying eight corridors as well as providing shuttle services for inter corridor links on both island and mainland.

Bus drivers were only allowed 2-3 minutes waiting time per stop and they have to adhere to their point to point schedules determined by the company. Incentives will be given to drivers who meet their daily quota of trips without any complaint from users.

Currently Rapid Penang has about 150 buses plying all routes in Penang. After three months operation, the company noted that routes U101, U102 and U103² were the high demand routes with good rider-ship. Social routes (non-profit routes) account for about 30% of its present bus services. RapidPenang has also provided a service (T304) to the General Hospital and the Caring Society Complex on a trial basis. These buses are equipped with ultra-low flooring. Two other bus routes on trial are the route from Balik Pulau to Air Itam and back and the extension service in Seberang Perai to Pinang Tunggal and Kepala Batas.

In response to the request of disabled persons organizations, MPPP has also appointed an access officer who will look into various issues pertaining to barrier-free environment and access to all types of public transportation.

²U101 – from Pengkalan Weld (Origin) via Burma Road and other routes, to Teluk Bahang (Destination) and back to Pengkalan Weld

U102 – from Pengkalan Weld (Origin) via Hospital Pulau Pinang, Kebun Bunga and other routes, to Ladang Pepper (Destination) and back to Pengkalan Weld

U103 – from Pengkalan Weld (Origin) via Kelawei Road, to Tanjung Bungah, Jalan Chan Siew Teong (Destination) and back to Pengkalan Weld

Challenges

In the implementation of the new bus services, many teething problems and challenges have arisen. However, these can be overcome through time and cooperation from all the stakeholders in the transportation sector.

Complaints received from users that RapidPenang has reduced the number of buses and frequency for some social routes. They urged RapidPenang not to reduce the frequency of buses on social routes due to lower rider-ship but to continue to provide such services so that more people will eventually use them as they stick to schedules.

Another common complain is the lack of information at bus terminals and bus stops. Some bus stops do not indicate the routes and the bus numbers that are plying the route. Bus users have requested that at bus terminals should have clear signage on the services. There should also be clear indication of the times for the first and last bus service for a particular route.

Presently, there is no bus service to the airport. This matter is still being considered. The existing bus service to the airport through Batu Maung is not suitable to be extended to the airport because it will become too long. Furthermore, it will cause inconvenience to people who wish to get to the airport in the shortest time possible.

It was reported that schedules cannot be strictly adhered to due to several factors such as on-street parking, illegal parking, hawkers and other obstructions. Buses from other bus operators also wait at the same bus stops contributing to congestion. These bus operators only ply the profitable routes and not social routes.

Furthermore, various disabled persons organisations had pointed out that there were inadequate barrier free facilities constructed for their convenience. These concerns are certainly valid if Penang is to provide a world class transport system. Transport service providers should offer such facilities in order to cater for people with disabilities, the elderly, children, pregnant mothers and tourists with prams and luggage.

The Sustainable Independent Living and Access (SILA) network has also advocated that the Universal Design Concept be incorporated into the planning and construction of the built environment from the very beginning instead of making costly renovations after construction. In addition, SILA also urged RapidPenang regarding the provision of safe and disabled friendly bus stops with proper ramps, hand rails, *braille* markings and guiding blocks

The present 150 buses are clearly inadequate to provide an efficient bus transport system for Penang. The SPNB will purchase more buses for Penang to beef up the present service by year end. This is especially so to provide better services on the Mainland.

Some Recommendations

To implement an efficient public transport system will not be an easy task. Providing new buses with well trained drivers would bear no fruits if the buses unable to maintain their schedules due to frequent traffic bottlenecks along the route. Lack of punctuality will deter car and motorcycle owners switching over to public transport. The key indicator of success or failure of the public transport is the willingness of public to switch their transport modes from private motor vehicles to public transport.

Traffic congestion in Penang is known to be caused by indiscriminate stopping and parking of cars. The traffic Police, Road Transport Department (JPJ) and local councils enforcement officers should be conducting frequent inspections to ensure that the cars / motorbikes do not park at bus stops, no double parking etc.



This will require long term political commitment because they will be unpopular with the culprits to start with. The authorities will have to include disincentives to car users, for instance, less on-street parking bays at higher rates, stricter enforcement on illegal parking, narrowing access or even closing off certain roads to motor traffic except for public transport and non-motorised vehicles. On the other hand, the authorities also need to offer some carrots - incentives for supporting public transport, perhaps even tax incentives for employers who subsidise their staff on public transport fares. Furthermore, the government servants are now given allowances for car parking, could this be converted into a public transport subsidy?

The bus operators of both RapidPenang and other existing bus companies, should be dealt with strictly by the Road Transport Department and the Commercial Vehicle Licensing Board (CVLB), in the event of flouting existing regulations, such as vehicles waiting and causing obstructions at bus stops. If there had been any violation by any party, these foul play parties should bear the full accountability for their wrongdoing.

Barrier-free bus and public transport are essential to cater not only for the needs of the disabled persons, but also for the elderly, pregnant mothers as well as children. Moreover, the consideration for barrier-free bus or public transport is not limited to just the vehicle itself, but also should include the supporting infrastructure, such as the access route/pavement to the station/stop, the station itself, a safe and comfortable environment, affordable fees and more importantly the attitude of the bus drivers towards the disabled, elderly and all the passengers in general.

Additionally, RapidPenang should further strengthen their present routing and keep to the scheduled frequency and run them well before starting other new routes.

Local authorities and approving bodies are proposed to place emphasis on the incorporation of the Universal Design concept for any new construction in Penang to provide a barrier free environment for all users.

SILA has proposed that a “train the trainers” programme for sensitization to disabled people needs. The trainers, can in turn train the other bus drivers. SILA will be working with RapidPenang on this matter.

It is proposed that the RapidPenang bus routes pamphlets should also be distributed to service centres of the ADUNs and MPs as well as NGOs etc. Brochures should also be printed according to corridors of service to avoid cluttering of information. Advertisement space can be used to promote the service.

Conclusion

Efficient public bus / transport is one of the key factors in evaluating the quality of the urban environment. Some magazines had undertaken surveys for developing the “Liveability Index” of cities in Asia. They interviewed foreign businessmen working in the region with a list of criteria for the liveability index. According to some observers, George Town, was once in the top five cities in Asia as measured by the quality of life and livability index, has gradually moved downwards largely due to the traffic gridlock.

The decision to set up RapidPenang with the financial backing of the government (Ministry of Finance) is a step in the right direction to reduce the State’s traffic woes. The RapidPenang services still need to be tied to the State’s integrated transportation planning. The bus services, as well as the overall public transportation system, both the infrastructure and efficiency in operations have to be well-planned and carefully executed in a concerted and systematic manner, in order to enhance the inter-connectivity and to provide an alternative to private transportation.



Under the exciting initiatives of NCER, it is the hope of Penangites, to have a good enough public bus and integrated transport system, which could entice the state leaders, the professional and top executives, as well as the owners of luxury cars, to switch over to take the public transport. Perhaps, this could be realised, in the next five to ten years time.

Selected Comments of RapidPenang bus users

“I am a 79 yrs old and I am so happy that I got my discount card from RapidPenang. I have used the services to go shopping on my own all over Penang and even up to Bukit Mertajam. I do not have to depend on transport from my family or relatives now.”

Mdm G. B. Chuah (Senior citizen – frequent bus user)

“The bus services in Penang has shown marked improvement since the introduction of RapidPenang. I am able to use the bus service without much hassle and even blind friends from KL said that they were satisfied with the services. However, there is still room for improvement and we hope that Penang will have more buses with disabled friendly features to further improve the frequency as well as the service.”

-Encik Nordin Hanafiah (blind bus user)

“The Penang State Government and RapidPenang are more open to the views and the opinions of the people and have put into action much of the recommendations put forward. This is especially true with the setting up of the Penang Public Transport Consultative Forum (PPTCF) chaired by YB Dato’ Dr. Teng Hock Nan, comprising community-based organizations (CBOs), NGOs, private users and Government officials. There have been significant improvements in the services. However, there is still room for improvement.”

§ Khor Hung Teik / Lim Wei Seong / Parimala Devi

SERI would like to thank the following resource persons and institutions for their insights and invaluable contributions to this article:

Dr. Choong Sim Poey, President, Penang Heritage Trust (PHT), Coordinator for Citizens for Public Transport (CEPAT)

Dr. Goh Ban Lee

Mr. Douglas David, former CEO, Rapid Penang

Mr. Rajendran, Traffic Engineer, Majlis Perbandaran Pulau Pinang Drivers of RapidPenang

Madam G.B. Chuah, RapidPenang regular passenger

Encik Nordin Hanafiah, blind bus user

Mr. Joachim Xavier, frequent bus user

Other public bus passengers

Trade Liberalization, Growth and Poverty

Introduction

It is generally agreed that open economies are better off than closed ones. There is a broad agreement that trade liberalization, interpreted here as the removal of restrictions on trade, promotes economic growth and helps to eradicate poverty. It brings about the convergence of domestic and international prices, and provides strong incentives for countries to trade. This article starts by providing a brief introduction into the literature on trade, growth and poverty. It then proceeds to an analysis of these issues in Malaysia based on available data. The challenges faced by the Malaysian government in eradicating poverty are then discussed before concluding.



Brief Overview of Literature

When talking about poverty, there are two aspects to consider; absolute poverty and relative poverty. Relative poverty is defined as poverty being below a certain poverty threshold¹. One measure of relative poverty would be the number of households that are earning less than 50% of the median income. In this article, the approach of absolute poverty is used. This approach is based on the concept of a minimum standard of living such as the poverty line income (PLI). The estimation of PLI involves estimating costs of the bundle of goods that are necessary to ensure that the requirements for basic consumptions are met. Thus, to calculate the PLI, expenditure on food and non-food components is used. As an indicator of the incidence of absolute poverty in Malaysia, the proportion of household with incomes below the PLI is used.

Traditional neoclassical trade theory views tariffs and other forms of barriers to trade as distortions to market signals². Trade theory suggests that the removal of trade barriers could lead to countries specializing in goods and services in which they have a comparative advantage, with mutually beneficial efficiency gains. In economic jargon, comparative advantage outlines conditions beneficial for two parties to trade. Countries, regions or individuals can benefit from trade if one has a lower relative cost of producing a good. It is this line of argument that underlie the study by Dollar & Kraay (2001)³, who argue that even though there may be losers from trade, the overall net effect of trade liberalization would be a distribution of neutral growth, which ultimately leads to a reduction in poverty. Based on the dynamic effect of the linkage between the changes in border prices (effects of trade liberalization) and the economy, an economy that is more open is likely to allocate investments more efficiently, create more opportunities to realize economies of scale, gain exposure to technological improvements in productivity and intensify competition. All this would lead to an increase in economic growth, hence lowering poverty.

¹ Hassan, A.R., & Hashim, S., (2001), "Poverty Statistics in Malaysia", Paper presented at the World Bank/PIPD Workshop on Strengthening Poverty Data Collection and Analysis.

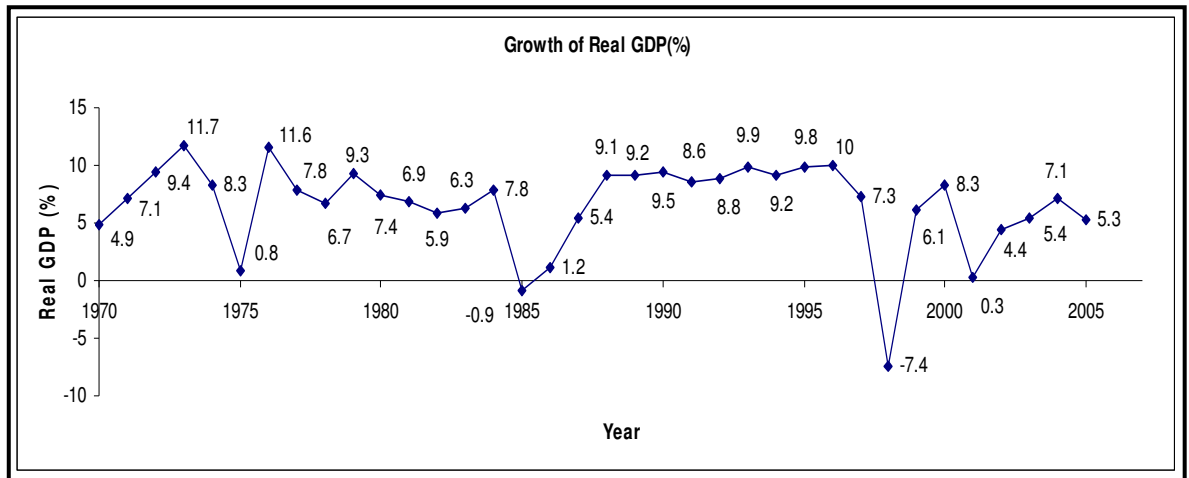
² Winters, L.A., McCulloch, N., & McKay, A., (2004), "Trade Liberalization and Poverty: The Evidence So Far", *Journal of Economic Literature*, Vol.42 (1), pp. 72-115.

³ Dollar, D. & Kraay, A., (2001), "Trade, Growth and Poverty", *Economic Journal*. 114(493), pp. 22-49.

Malaysia

Malaysia is a good example of a country benefiting from the effects of trade liberalization on growth and the eradication of poverty.

Figure 1: Real GDP Growth Rate (%) in Malaysia from 1970-2005



Source: IMF World Economic Outlook (WEO) Database;

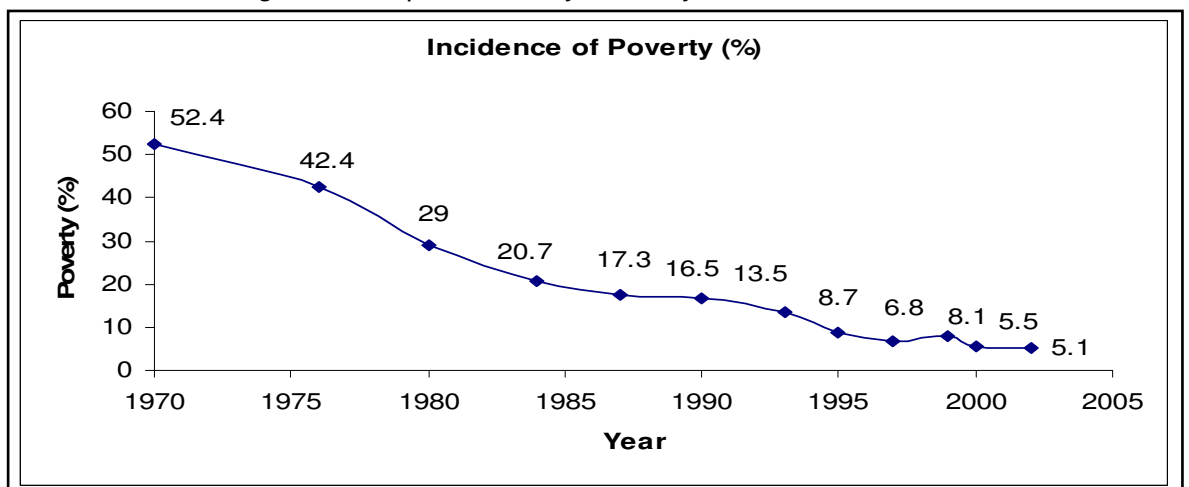
Note: Data for Real GDP growth from 1970-2001 came from WEO Database for December 2001 while data for growth from 2002-2005 came from WEO Database for April 2006.

Table 1: Incidence of Poverty (%) in Malaysia from 1970-2002

Year	1970	1976	1980	1984	1987	1990	1993	1995	1997	1999	2000	2002
Incidence of Poverty (%)	52.4	42.4	29	20.7	17.3	16.5	13.5	8.7	6.8	8.1	5.5	5.1

Source: Data obtained from study carried out by Abhayaratne, A., (2004), "Poverty Reduction Strategies in Malaysia 1970-2000: Some Lessons, FEA Working Paper (14).

Figure 2: Graph of Poverty in Malaysia from 1970-2002



Around two decades after Malaysia gained independence, there was a marked improvement in the performance of its manufacturing sector. Between the years 1971-1980, the manufacturing sector experienced an annual growth rate of 22.9%, which accounted for 21% of the GDP in 1980⁴. This was sparked off by the boom in export-orientated and labour intensive industries, such as electronics, textiles, and wood products. The factor contributing to this impressive performance was largely the efforts of the Malaysian government in attracting and promoting export-orientated industries through the establishment of free-trade zones (FTZs) in the early 1970s. Partly linked to the export performance were the incentives granted to encourage manufacturing exports. During that period, economic growth averaged about 7.9% per annum due to the outstanding performance of the manufacturing sector. Nevertheless, as shown in Table 1 and Figure 2, poverty rate in the year 1970 remained significantly high with a rate of 52.4%.

In 1975, the world went into a recession following the oil shock crisis and the growth of real GDP dropped from 8.3% in 1974 to only 0.8% in 1975. However, even with the economy thrown into recession, the poverty rate managed to decrease slightly to 42.4% in 1976. Due to the sharp decline in growth rate, the Malaysian government responded by significantly increasing spending on public investment projects. With the increase in public investment spending helping to spur economic recovery, real GDP growth had rebounded to 9.3% by 1979. Due to a prolonged global economic recession in the early 1980s, real GDP growth averaged only about 6%. Nevertheless, by 1984, poverty in Malaysia had decreased considerably to 29%.

The Malaysian economy fell into another recession in 1985, with a negative annual growth rate of 0.9%. This was because several of the main export commodity prices collapsed, and as a result, the income from total exports decreased by 1.6% in 1985 and 6.2% in 1986. This had an adverse effect on the economy, with deflation and a drop in share and property prices. The post-1985 recession period saw a significant reduction in the average tariff rate of the manufacturing industry to below 30% by the late 1980s. Following the improvement of external conditions, the export sector posted an outstanding performance. The Malaysian economy recovered and managed to achieve an annual growth rate of 9.3% between 1988-1990. Further decreases in tariffs came as part of the Common Effective Preferential Tariff (CEPT) of the ASEAN Free trade Agreement (AFTA). In addition, a second round of export-orientation through a cluster-based approach was initiated in the late 1980s. Rising national incomes saw the absolute poverty rate declining further to 16.5% by 1990.

The Malaysian economy saw exceptional growth in the 1990s with the annual average growth rate being about 9.4% between 1991 and 1996. This strong growth was mainly due to the active promotion of the private sector as the main drivers of economic development. In addition, there was a substantial entry of foreign direct investment (FDI), where the average ratio of FDI to GDP increased two-fold from 3.3% during the periods 1981-1990 to 6.6% over the period, 1991-1996. The share of FDI in total investment increased to a staggering record of about 23% in 1992. This notable increase in FDI was partly due to the Government viewing FDI as a major driving force in Malaysia's poverty reduction efforts⁵. The decision to grant attractive FDI incentives, which included liberal tax policies such as tax allowances and double tax deduction, unrestricted profit remittances, and location incentives for the promotion of exports were implemented. An industrial promotion mission led by the Malaysian Industrial Development Authority (MIDA) was established for this purpose targeting multinational corporations (MNCs).



⁴ Ang, J.B., (2007), "Financial Deepening and Economic Development in Malaysia", *Economic Papers*, Vol.26 (3), pp. 249-260.

⁵ UNDP Booklet (2006), "Malaysia International Trade, Growth, Poverty Reduction and Human Development", *United Nations Development Program Malaysia*.

Steps were taken by the Malaysian government to induce the MNCs based in the US, Japan and Europe to invest in Malaysia. Among the incentives provided were tax holidays and pioneer status to MNCs that located in the free trade zone (FTZs). These export enclaves FTZs provide support to the promotion of export-orientated industries, therefore keeping their transaction costs low. In addition, infrastructure facilities were provided to the manufacturing industries located in the FTZs. The weighted average tariff rate decreased from 14.9% in the late 1980s to only 8.9% in the late 1990s⁶. By 1995, the poverty rate was down to just 8.7%.

Malaysia was badly affected during the Asian financial crisis in 1997 and real GDP growth dipped significantly to -7.4%. From 1997 to 2003, the economy recorded a growth rate of only 3.5%. Even though various macroeconomic and financial sector policies were put in place to tackle the crisis, which did help the economy to recover by 1999 (real GDP grew by 6.1%) growth faltered in 2001 to a mere 0.3% as a result of the world trade recession. However, the economy managed to record an average growth rate of 5.6% from 2002 to 2005. Due to being severely hit by the Asian crisis, the poverty rate in Malaysia actually increased to 8.1% in 1999 from 6.8% in 1997. But by 2002, the economy managed to lower the poverty rate again to 5.1%.

As is clear from Figures 1 and 2 and Table 1, over the past 35 years, despite going through three recessions and one financial crisis, Malaysia managed to substantially decrease the rate of absolute poverty from a high 52.4% in 1970 to a mere 5.1% in 2002. It managed to achieve sustainable economic growth from 1970 to 2005, with an average growth rate of around 8%. Through its open and export orientated economy, Malaysia has progressively liberalized its trade and the economy shifted away from a reliance on the export of primary commodities to exports of manufactured goods. From the years 1986-1990, the average tariff rate was 15%. Over the periods of 1996-2002, the average tariff rate had fallen to 9%, which was now similar to rates in South Korea and Taiwan. Being a member of ASEAN and under the ASEAN Free Trade Agreement (AFTA), import tariffs on goods from its AFTA partners were significantly decreased. Thus, Malaysia's trade liberalization policies have given preference to intra-ASEAN trade. One of the key contributors to the success of Malaysia's poverty reduction efforts is the growth of the manufacturing industry. In 2003, the contribution of manufacturing products in total exports increased to 82% from 22% in 1980. The most dynamic sector is the electronic sector, with Malaysia now being one of the world's major exporters of semi-conductors and electronics components. In fact, Dollar & Kraay (2001), cited Malaysia as one of the world's 24 post-1980 'globalizers'.

Issues/Challenges

It is important to note that even though there is much enthusiasm and optimism about the effect of trade liberalization on the elimination of poverty, it alone cannot guarantee a favourable outcome. The final result depends on a number of factors, including its starting point, the precise trade reform measures undertaken, who the poor are, and how they sustain themselves⁷. It is the environment and the policies that accompany it that influences the impact of trade liberalization on poverty. Trade liberalization in isolation cannot be a panacea for reducing poverty.

⁶ Dollar, D. & Kraay, A., (2001), "Trade, Growth and Poverty", *Economic Journal*. 114(493), pp. 22-49.

⁷ Busosolo, M., & Lecomte, H.B.S. (1999), "Trade Liberalization and Poverty", *Odi Poverty Briefing*, Vol. 6.

Trade liberalization remains the catalyst of growth and an essential mechanism of development. Studies have shown that it is the countries that experience growth and have opened up their economies to integrate with the global economy in a market consistent manner that have seen significant decrease in poverty⁸. Nevertheless, to infer that trade liberalization *per se* is able to generate growth and eradicate poverty would be a very naïve. It is also not justified to think that trade restrictions are directly pro-poor measures. It has been argued that to be effective, policy instruments should be linked to their objectives. Thus, even though a tariff may benefit the poor in an indirect way through the pro-poor spending of tariff revenue, it may also reduce welfare through the distortion that it generates.

There is some debate as to whether protectionism is detrimental to the growth of developing countries. Nevertheless, evidence show that countries that are more open to trade regimes and have in place good fiscal discipline and governance tend to experience higher growth rates than economies with restrictive policies.

Malaysia had a comparative advantage in labour-intensive industries that utilized unskilled workers. In the past, these low-skill-intensive industries were vital in generating employment, and increasing the incomes of low skilled workers. This, in turn, helped decrease poverty. However, this comparative advantage has eroded. Malaysia is now facing competition from other low-cost economies like China and Vietnam. The wages in these emerging countries are much lower than that of Malaysia, and as a result, Malaysian's labour-intensive export-orientated industries such as the electrical and electronics (E&E) and apparel are experiencing tough competitive pressures. Malaysia is also losing foreign investment to these low wage economies.

In order to maintain long term high growth rates, and to eventually decrease the poverty rate, a comprehensive strategy is required with investment in human capital and the development of infrastructure. Trade liberalization, although a key aspect, is only one component of this strategy. In order for Malaysia to increase its level of competitiveness, rapid adjustments to the demand and supply side of labour and generally to human capital would have to be implemented. One way would be to move up the value chain and establish its industries with capabilities of manufacturing and exporting skill and technology-intensive goods; i.e increase productivity. In order to achieve this, the upgrading of the manufacturing sector to high technology and knowledge-intensive industries is imperative. Also important is heavy investments in improving home grown human capital, especially in terms of scientific and technical manpower. In the short-term it may be necessary to import such skills.

Malaysia's success in poverty reduction can be attributed to trade liberalization that was accompanied by sound macro economic management, as well as investment in basic human capital. Emphasis was placed on providing the poor with basic skills necessary to take advantage of the opportunities being generated in the modern segments of the economy. As a consequence, large numbers of workers moved from the traditionally low paid rural jobs to better paid modern sector employment that helped to lift them out from poverty.



⁸ Lindert, P., & Williamson, J., (2001), "Global Trade Liberalization and the Developing Countries". *IMF Brief*. IMF.

Conclusion

Malaysia's success in poverty reduction lends support to the notion that trade liberalization must be accompanied by other policies that successfully integrates the economy with the global market place so that new opportunities can be taken advantage of. In particular, human capital development is a key strategy since it provides poverty households with the means of participating in the growing modern sector of the economy. Other key aspects include sound macroeconomic policies, strong institutions, re-training programs and the provision of a favourable investment climate. The removal of regulations that restrict the degree of flexibility of domestic market operations and impedes the realization of gains from comparative advantage are also important.



Malaysia faces the challenge of how best to benefit from continued liberalization that is gaining momentum in its fight to eradicate poverty. Trade liberalization is only one of the many ways of reducing poverty but it is by no means a “magic bullet” against poverty⁹. As such, the nation should increase its investment on human development, especially the aspects of knowledge, innovation, and ideas, as envisaged in the 9th Malaysian Plan 2006-2010. **§ Ng Ju- Ai**

SERI would like to thank the following resource persons and institutions for their insights and invaluable contributions to this article:

Professor Suresh Narayanan
Professor Lai Yew Wah

⁹ Berg, A., & Kruger, A., (2002), “Why Openness Helps Curb Poverty”, *IMF Paper*, Vol. 39 (3).

Response To The Article On The 2008 Budget By Dr. Chan Huan Chiang

I refer to the paper by Dr. Chan Huan Chiang on “**The 2008 Budget: Understanding the scope of Government Participation in the Economy**” which was published in SERI’s Penang Economic Monthly, September 2007, vol. 9 issue 9.

Dr Chan took the opportunity to malign the Malaysian Institute of Planners and town planners in general when he attributed the “failure of town planning” in Malaysia to the Town Planners Act.

Unfortunately as an academic Dr. Chan did not attempt to find out more about what town planning entails in Malaysia. Indeed town planning covers a wide area not only geographically but also in scope and content. In a nutshell, town planning has evolved from the traditional masterplan-making approach to a profession that manages the development process, participating in the decision-making process that has to take into consideration a multitude of factors and involving diverse stakeholders.

Town planners work in a variety of environments, there are those in the public sector whose main role are to oversee the preparation of State Structure Plans and local plans as well as administering development control. Then there are others who work as consultants and developers in the private sector.

The incidence of floods and traffic jams are by no means the direct result of town planning but rather due to the failure to fully implement statutory development plans and monitor development control. There is also the all too familiar problem of lack of coordination among government agencies and departments such as the local authorities, public works department, drainage and so on. In the final analysis, it is the government of the day through the State Planning Committee chaired by the Menteri Besar or Chief Minister which decides on what, where, when and how development is to take place. So who is responsible?

As a result of a fast- growing economy, market forces has shaped much of our urban land policy where land-use changes and increased development densities has led to spiraling land prices and creating a vicious cycle. In the case of Malaysia, there are also other forces which impinge on the urban land market, creating distortions and thus blowing away the theory that a “perfect market” exists and that the law of supply and demand should be allowed to dictate land prices. It is clear that certain urban areas are too densely developed and this has in turn created the problem of traffic congestion, lack of parking, flooding, etc. The planner can only warn against such potential cause and effects, but the decision-makers are Municipal Councillors and Exco members who come and go (but mostly stay).

The development industry involves a myriad of professionals that include not only planners but also architects, engineers, surveyors, builders, landscape designers, geologists, lawyers, financiers, and others. Each of this industry professional has its own scope of work in the development process eg. Architects work on building plans, space and aesthetics, civil and structural engineers are responsible for designing the structural components, roads and drains, etc. and each is governed by its own code of practice. In the standard development process, apart from drawing up the layout plans, the town planner has to prepare and submit a report on the development proposal to the local authority and to ensure that all planning guidelines and standards are observed. This step in obtaining planning permission is only one of the many steps in the development process.



As the saying goes, even the best of plans is useless, if it is not implemented well. Dr. Chan has found it convenient to use the term town planning in a liberal sense in his paper but in reality it is in the realm of public policy and the delivery system that he should have knocked. The message should be that if Malaysians want value for their hard-earned ringgit there should be good governance and transparent decision-making and effective public feedback. Indeed the huge sums of public funds spent on flood mitigation projects are limited to certain areas and in certain cases less expensive solutions such as relocating settlements could have been considered. Should public money be used to build grandiose government offices or more spent on improving basic health services? Unfortunately instead analysing in detail how tax-payers' money is being spent, Dr. Chan chose to confuse the issue. § *Lim Hooi Siang*

International Headlines

Economic Fundamentals Strong

Reuters (Berlin), 17th October, 2007

The U.S. economy fundamentals are strong even though the housing market decline is slowing the expansion. Despite the strong fundamentals, the housing decline is still unfolding. The U.S. government is also trying to think about ways to protect solvent homeowners from losing their homes, while avoiding any kind of rescue of the financial sector. On hedge funds, the United States wanted a system of voluntary best practices and not firm rules, adding that Germany agreed with the U.S. position. State run funds would be a topic of discussion at a meeting in Washington between Group of Seven (G7) members and countries with sovereign wealth funds. Germany is already drawing up plans to shield so-called strategic German companies from cash-rich sovereign wealth funds, especially in China, Russia and the Middle East, in order to protect the country's national security.



U.S. Hopes To Keep Export Boom Going

Reuters, 22nd October, 2007

The Bush administration hopes to build on a U.S. export boom that is helping to reduce the U.S. trade deficit from last year's record \$758.5 billion. U.S. exports have risen 11.6 percent so far this year, compared to a much smaller gain of 4.3 percent for import that builds on the progress made last year when exports rose 12.7 percent and imports 10.4 percent. The trade gap is expected to narrow in 2007. The deficit through the end of August totalled \$471.9 billion, compared to \$517.5 billion in the same period last year. Many economists attribute some of the U.S. export boom to the weaker dollar, which makes U.S. goods more affordable overseas. The Bush administration is doing its part to expand exports by negotiating free trade agreements and pursuing other initiatives to open markets around the world.

China Growth Slows Down

Yahoo News, 25th October, 2007

Chinese economic growth slowed a touch in the third quarter but not by enough to dispel expectations of more interest rate rises and other policy curbs to stave off the risk of overheating. Annual growth in gross domestic product eased to 11.5 percent in the third quarter, bang in line with forecasts, from a 12-year high of 11.9 percent in the April-June period. The outcome leaves China on course to grow this year at the fastest rate since 1993, when the economy expanded 13.1 percent, and brings it closer to overtaking Germany as the world's third-largest economy. Industrialization, urbanization and China's global manufacturing power are the three engines that continue to drive very high growth. The central bank has already raised interest rates five times this year.

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