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# Penang Economic Report 2007

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## Year-End Review and Outlook for 2008 (Part 2)

### Socio-economic & Environmental Research Institute

10 Brown Road,  
10350 Penang, Malaysia  
Phone: 604-2283306  
Fax: 604-2267042  
Email: [seripg@tm.net.my](mailto:seripg@tm.net.my)  
Website: <http://www.seril.com.my>

## PENANG ECONOMIC REPORT 2007 – YEAR-END REVIEW AND OUTLOOK FOR 2008 (PART II)

### D. PERFORMANCE OF MAJOR ECONOMIC SECTORS

#### iv) CONSTRUCTION

Penang is poised to see a significant increase in infrastructure construction in the next few years with the advent of the NCER (Northern Corridor Economic Region). Numerous projects have been lined up to propel Penang into a modern metropolis that functions as the main transportation and logistic hub of the NCER. The NCER raises hopes for the stakeholders in the construction industry that have been anticipating these projects planned as early as 10 years ago.

Dato' Jerry Chan Fook Sing, the Penang REDHA Chairman in his presentation at a recent Symposium "NCER: Unleashing Penang's Potential" at the E&O Hotel on 17 November 2007, provided a 22-year review on the construction industry from the year 1985 when the Penang Bridge was first completed to the present. He said after the landmark bridge project, the next major infrastructure development was the construction of the North-South Expressway in 1991-1993. The mid-90s saw further construction and port development work, particularly the Northern Butterworth Container Terminal (NBCT) which then spilled over to Phase 2 and Phase 3 after the year 2000.

The construction of NBCT-Phase 2 was necessary to cater for Penang Port's growing container capacity as well as to reduce congestion and improve vessel turnaround time. This container handling expansion programme was timely as Penang Port had registered an encouraging 12 percent rise in container handling throughout 2004. This increase was in line with the growing trend for 'containerisation' and currently, contained cargo accounts for more than half of the traffic volume at Penang Port.

Penang Port Sdn. Bhd. (PPSB) will invest RM1.10 bil in the development of Penang Port under its new business plan from 2007 – 2012 in a move to elevate its status to a main line port under Phase 3. In line with the port's strategy to be supply-driven, several key projects have been identified under the business plan. They include, among others, North Butterworth Container Terminal (NBCT) expansion, North Channel Dredging and construction of a barging centre. The expansion of NBCT Phase 3 will be undertaken in two stages, namely Stage 1 ( 2007 - 2010 ) and Stage 2 (2009 – 2010).

From 2001- 2007, other major infrastructure projects were initiated, like the Butterworth Outer Ring Road (BORR), the almost completed Jelutong Expressway, the Bayan Lepas Expressway, the flyover at Bayan Baru and more recently, the widening of the Penang Bridge.

However, the implementation of the long-awaited Penang Outer Ring Road (PORR) still has yet to commence. This project will reduce traffic along Jalan Scotland and Jalan Mesjid Negeri by 40% according to traffic consultant Dr Tai Tuck Leong, who also attended the same NCER Symposium. The PORR is expected to alleviate traffic-flow problems and will serve motorists journeying primarily between Bayan Lepas and Gurney Drive.

More recently, Prime Minister Datuk Seri Abdullah Ahmad Badawi unveiled a list of projects for the State under the NCER initiative promising to turn Penang into the "Gateway to the Northern Corridor".

The projects promise to cover all Penang districts including the less developed and more rural south-west district (Balik Pulau region) on the Island. The proposed projects will carry a hefty bill that will run into billions of ringgit when fully implemented. The Northern Corridor Economic Region (NCER) project is intended to transform Penang into a modern, vibrant city and a major logistics and transportation hub.

The list of the major projects in Penang may be summarized in the following outline<sup>1</sup> :

## **On Penang Island**

### *Penang Global City Centre*

The proposed project will transform the 260 acre site where the Penang Turf Club now stands in Batu Gantung, George Town, into a new city centre tailored for meetings, conventions and exhibitions besides providing 37 tower blocks of luxury condominiums. PGCC is being developed by Abad Naluri Sdn Bhd, an associate company of Equine Capital Bhd, and will take 15 years to complete according to the developer.



Aside from an international exhibition and conference centre, the RM25 bil project will also have shopping complexes, two five-star hotels, a cultural centre, a metropolitan park as well as residential development comprising of condominiums and bungalows.

However, recently in January 2008, the state government had requested the developer to reduce the density of the condominium units to be more reflective of the surrounding neighbourhoods and the developer had been reported in the press that they will resubmit their plans to conform to the requirement of the state

### *Seri Tanjung Pinang*

This project by E&O Property Development Bhd encompasses almost 1,000 acres of freehold land located at Tanjung Tokong, and extends from the northeast coast of Penang towards a number of islands offshore to be reclaimed. This will be the largest waterfront development in Penang. It consists mainly of seafront luxury homes catering for the upper income group and foreigners, and comes with a marina and a large variety of retail and leisure outlets consisting of art galleries, boutiques, outdoor cafes and an entertainment complex. After the first phase, an additional 740 acres is being developed seawards to include the reclamation of a number of islands adjoining the present development.

### *The Light Project*

Jelutong Development Sdn Bhd (JDSB), a subsidiary of IJM Properties Sdn Bhd. Announced that they will be developing a mixed residential and commercial development project, called The Light. With construction scheduled to start in late 2008, the 61.5ha reclaimed land project is set to transform the island's eastern coastline into a tourist attraction. This project is also part of the Jelutong Expressway (JE) privatisation project.

The main attractions of this ambitious project include a seafront park, floating restaurant, waterfront amphitheatre, water theme park, international convention centre, hotels and shopping mall. There will also be waterfront homes with private jetties and high-end condominiums for those who can afford them.

It involves an integrated waterfront living concept which incorporates residential, entertainment, business, education and commercial components creating a dynamic township to be developed in 3 phases.

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*Reference : The Star, 1 Aug 2007*

### *Penang Times Square*

The Ivory Properties Group has announced their intention to build the Penang Times Square last year on a 5.3 hectares site adjoining BIRCH HOUSE with in George Town. It is located along Jalan Dato Keramat, with Jalan Kampung Jawa Baru as the future link to Jelutong Expressway, Birch The Plaza. The Penang Times square is intended to be one of the exclusive addresses in the heart of George Town near the future monorail station. This construction involves 4 Phases comprising Birch The Plaza & Birch Regency (Commercial & Residential properties) for Phase 1 & 2. Phase 3 includes the building of commercial lots, Cineplex, exhibition halls and secured residences. The final Phase 4 will involve the construction of a hotel.

### *Queensbay Area*

C P Landmark Sdn Bhd was incorporated for the dedicated purpose of undertaking the long-awaited revival scheme and completing the rescue development of Bayan Bay project in Penang, renamed Queensbay to signify a new lease of life. Queensbay Mall, Penang heralds the Group's foray into retail property development.

In expanding their construction project in the same area, they have recently launched BayStar – an exclusively designed with 160 units of in bungalow and semi-D units; BayAvenue comprising shop offices in Queensbay and BayGarden which includes guarded enclave offering 19 bungalows and 46 semi-detached houses with an emphasis on safety and security.

Future launches include BayVillas a seafront property designed around the waterfront with a view of the sea, a roof-top garden, a private infinity pool and individual berthing facilities for yachts. Another planned development is BayCapital, which will be a business address situated directly opposite Queensbay Mall

### *Bayan Lepas International Airport expansion*

The Bayan Lepas International Airport will be made the premier air cargo hub in the IMT-GT and will handle high quality perishable food items. A new passenger and cargo terminal and additional runways will be built to cater for increasing air traffic.

### *Penang Monorail*

The monorail network will provide another choice of public transport for Penangites when integrated with the present Rapid Penang bus service. It will ease traffic congestion in Penang as well as link up the island to Seberang Prai in a later phase.

### *Swettenham Pier redevelopment*

Swettenham Pier in George Town will be redeveloped into a new public transport system and commercial hub as part of the integrated public transport system planned for the island.

### *Micro-Electronics Centre of Excellence*

The centre will be built at the Universiti Sains Malaysia campus under a public-private partnership. This will increase the capability of local workers to shift from low-level manufacturing and assembling activities to value-added high technology activities such as the design of electronics and robotics.

### *Hospitality College*

A college for hospitality studies will be built in Balik Pulau. A hotel will also be built there to provide practical training for its students.



## **In Seberang Perai**

### *Penang Sentral Integrated Transport Hub*

The RM2 billion modern transportation and logistics hub will be built on the site of the Butterworth ferry terminal, railway station and former bus terminal which burned down in May 2001.

The project, which aims to transform Butterworth into a modern metropolitan area, covers 557,418 square metres and will replace the current Butterworth ferry terminal and railway station. This hub will integrate rail, ferry, monorail and land transport modes. The project will be developed by Malaysian Resources Corporation Bhd and Pelaburan Hartanah Bumiputra Bhd. The first phase, involving the integrated transport and commercial outlets, is expected to take off in 2008 and be completed in 2010.



### *Second Penang Bridge*

As announced earlier, the RM2.7bil second link between the mainland and Penang will be a 23 km long bridge linking Batu Kawan in Seberang Prai with Batu Maung on the south-eastern corner of the island. Construction of the longest bridge in Southeast Asia is expected to start in November and be completed in 2011. It will be built under a joint-venture between UEM Builders Bhd and China Harbour Engineering Co Ltd. China will provide a US\$800mil (RM2.8bil) loan to the project, the largest amount given by China for a single project in a foreign country.

### *Pulau Jerejak premier medical tourism centre*

This former 362 hectares penal colony off the east coast of Penang island which now houses a holiday resort has been proposed for development for a premier medical tourism centre in the region. This is part of efforts to enhance Penang's strength in medical tourism. Suitable incentive packages will be provided to develop the medical tourism industry in line with NCER objectives.

### *Penang-Butterworth Express Ferry*

An express ferry service will be introduced next year for pedestrians and motorcycles as an addition to the present Penang ferry service. The ferry terminals at Butterworth and on the island will also be upgraded.

### *Penang Port Expansion*

Penang Port will be promoted as the leading port of the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT). Facilities at the port will be upgraded so that it will be able to handle more containers and bigger container ships.

## **Challenges**

According to the Master Builders Association Malaysia (MBAM) construction cost is expected to rise 20 per cent in 2008, and if fuel price goes up, the hike may be reach 25 per cent. The government raised the ceiling price of steel bars and billets by 12 per cent across the board effective December 1, 2007.

Construction costs rose by 12 per cent in 2007 in tandem with the rise in prices of raw materials. Prices of steel bars rose to RM2,419 per tonne from RM1,817. Despite this rise, contractors complained that they had difficulties in getting them. Although all industry players are affected by this surge in prices, small time contractors are the hardest hit as they do not have the capacity to withstand such sharp price rises.

Industry stakeholders like MBAM and the Real Estate and Housing Developers' Association (Rehda) have complained of shortages because of high exports due to better prices abroad. Rehda has requested the government to ban the export of steel bars and billets so adequate supply for the domestic market can be ensured.

It is also significant that the growing tourism industry in China, spurred by the forthcoming Beijing Olympic Games (2008), is constantly increasing the demand for hotels and resorts. Several international hotel chains are entering the Chinese hospitality industry. The China Infrastructure Report Quarter 3 2007 Report valued at US\$150.65bn in 2006 and having recorded a growth of 13.2% y-o-y in Q107, the Chinese construction industry will grow at an average rate of 7.54% in the period 2007-2011. China is said to be one of the main consumers for construction raw materials and may have influenced price rises in the region.

In our own backyard, the billion dollar projects under the NCER will stimulate the construction sector in the next few years for Penang if they are implemented as scheduled. As a result of the increase demand, the industry players also foresee a further rise of construction costs due to the rising fuel, steel and cement prices in the near future.

On the other hand, the mushrooming construction, land reclamation, and mega development projects in this small island, for instance, the large amounts of development along the north coast (Tanjung Bungah and Batu Ferringhi), have drawn some serious concerns from Penangites – the impact to the environment, traffic congestion, carrying capacity, etc. Although these development projects are crucial for the economic growth, protecting the environment is equally important and should be the responsibility of everyone.

### **Outlook for 2008**

Penang seems poised for stronger growth in the property sector according to UOB Kayhian analysts. Such high-impact real estate projects (e.g. Seri Tanjung Pinang & PGCC) will see Penang going to the next level of property development. These projects can attract more investors, helping to generate stronger demand for residential properties in Penang. Prices in Penang remain attractive and competitive not only compared to the Klang Valley but also in the Southeast Asian region.

The plans of various property managers to further strengthen and expand the MM2H (Malaysia My second Home) programme will also be a strong catalyst to further boost Penang's property sector. Penang state in fact has the second strongest real estate sector in the country after the Klang Valley. The emergence of international developers and higher-end lifestyle products will stimulate both domestic and foreign interest as well as demand for Penang property, and this will result in a surge in land prices. The industry hopes that the same incentives that have been accorded to the Iskandar Development Region (IDR) will also be given to Penang's developers to further spur and boost Penang's construction & property sector.

The prospects for both the property and construction sector in Penang seem bright for the next few years if the promised real estate and property projects are delivered on time. However, there is some concern that supply may exceed demand.

**§ Khor Hung Teik**

## v) PROPERTY MARKET

### Overall Performance of 2007 (January – September)

In the first nine months of 2007, Penang experienced a slightly softer demand for residential and commercial property. However, industrial and agricultural property has witnessed significant growth in terms of overall volume and transactional value. The official data indicates a drop in volume (units) of residential property transactions, but a notable increase in the value of these transactions. The total number of units transacted for all properties from January to September 2007 declined 4.65%, while the total value of transactions amounted to RM4,327 million, signifying an increase of 4.16% over the amounts registered during the corresponding period in 2006 (Table 18). A buoyant Malaysian economic performance in 2007 amid a good performance in the equity markets has resulted in higher demand for selective (mid to high-value) properties in Penang. This is, of course compounded by the onset of heightened interest by both locals and foreigners, particularly in the completed and soon to be completed high-end residential property market which encompasses both condominiums/apartments as well as landed property.



**Table 18: Penang – Number and Value of Property Transaction by Sub-Sectors (Jan – Sep 2006 & Jan – Sep 2007)**

	No. of Transactions (Units)			Value of Transactions (RM million)		
	Jan-Sep 06	Jan-Sep 07	% y-o-y	Jan-Sep 06	Jan-Sep 07	% y-o-y
Residential	11,707	10,804	- 7.71	2,103.42	2,242.62	+ 6.62
Commercial	1,583	1,541	- 2.65	622.53	602.10	- 3.28
Industrial	413	422	+ 2.18	324.80	378.55	+ 16.55
Agricultural	847	982	+ 15.94	152.17	200.86	+ 32.00
Develop-ment	1,295	1,386	+ 7.03	932.81	895.80	- 3.97
Others	53	24	- 54.72	18.08	6.65	- 63.22
TOTAL	15,898	15,159	- 4.65	4,153.81	4,326.58	+ 4.16

Source: National Property Information Centre (NAPIC Penang), Valuation and Property Services Department, Ministry of Finance Malaysia.

### Residential Sector

The residential sector continued to lead the overall property market in Penang for the first nine months of 2007 despite the contraction in number of transactions (- 7.71%) as compared to the same period in 2006 (Table 18). However, an increase in the value of transactions was recorded over the same time period (+ 6.62%). This negative correlation could possibly be a result of the preference of local and foreign property buyers in acquiring more up-market property for investment and/or accommodation purposes.

According to industry sources, property buyers in Penang are currently more selective towards their purchase decisions and are focusing on higher value acquisitions. This is evidenced by stark increases in the number of purchases of properties within the RM250,001 – RM500,000 and RM500,001 – RM1 million bands in 2007 as compared to 2006 (+ 9.51% and + 59.10% respectively). This observation is further demonstrated by a relative reduction in the number of property purchases within both the RM75,000 – RM150,000 and RM100,001 – RM150,001 bands (- 8.27% and – 14.13% respectively) as compared to the same period of analysis in 2006.

Property transactions above the RM1 million band have again taken centre stage in 2007 with an almost doubling of the percentage of transactions (+ 92.55%) as compared to 2006. According to industry sources, such a dramatic increase can be attributed to the high uptake of up-market condominiums located within the Tanjong Bungah area by Malaysian residents as well as foreigners.

On the whole, 2007 has seen a steady increase in the average prices of landed property in Penang, in particular those within the terraced, semi-detached and detached categories as compared to previous years (Table 20). This has been an observable trend over the previous years, particularly on Penang island, due to the scarcity of land resources. However, slight declines have been noted in the low-cost houses, low-cost flats and cluster housing categories. In contrast, average prices of flats and condominiums/apartments have been rising steadily. According to industry sources, this shows a steady upward demand for mid-range property such as flats and condominiums/apartments, as the population shifts towards purchases of property with higher value. Penang may witness a possible glut in the supply of low-cost flats and low-cost houses should the current trend continue in these areas showing depreciating prices.

### **Commercial Sector**

Up to the third quarter of 2007, the commercial sub-sector, which comprises of purpose-built offices, shops, and shopping complexes / commercial properties, contributed 10.17% of the overall transaction volume and 13.92% of the overall value (Table 18) of property transactions in Penang. These two figures indicate a marginal decline in overall volume and value as compared to the same period in 2006. There was a broadly lower number of transactions across the range of property prices within the commercial sector, up to and including the RM 250,000 band when compared to the same time period in 2006. However, an uptrend was observed within the RM250,001 – RM500,000, RM500,001 – RM1 million and above RM1 million bands, with volume increases of 6.13%, 43.62 and 65.90% respectively.

Over the same period, this sector had registered a slight reduction in both total volume and value of transactions. RM602million worth of commercial property transactions which amounted to a 3.28% decrease as compared to the same timeframe in the previous year was recorded. Commercial properties that were priced at RM250,001 and above (3 bands in total) gained the highest buying interest, with a total of 806 transactions (Table 19) worth approximately RM490 million. Jan – Sep 2007 has witnessed a 66% increase in the number of commercial property transactions worth over RM1million as compared to the same period in 2006.

**Table 19: Number of Transactions by Price Range for the Principal Property Sectors, (Jan – Sep 2006 & Jan – Sep 2007)**

Price Range (RM)	No. of Transactions						
	Residential	Commercial	Industrial	Agricultural	Development Land	Others	Total
<b>RM0 – RM25,000</b>							
Jan-Sep 06	482	41	12	212	231	9	987
Jan-Sep 07	328	26	1	207	256	7	825
<b>RM25,001 – RM50,000</b>							
Jan-Sep 06	900	45	12	149	183	9	1,298
Jan-Sep 07	805	22	4	171	163	3	1,168
<b>RM50,001 – RM75,000</b>							
Jan-Sep 06	1,681	114	14	82	107	4	2,002
Jan-Sep 07	1,542	67	8	103	115	1	1,836
<b>RM75,001 – RM100,000</b>							
Jan-Sep 06	1,784	93	9	79	88	4	2,057
Jan-Sep 07	1,329	54	4	83	88	1	1,559
<b>RM100,001 – RM150,000</b>							
Jan-Sep 06	2,505	203	11	83	112	2	2,916
Jan-Sep 07	2,151	183	7	115	104	3	2,534
<b>RM150,001 – RM200,000</b>							
Jan-Sep 06	1,542	210	31	71	82	4	1,940
Jan-Sep 07	1,492	202	31	69	90	3	1,887
<b>RM200,001 – RM250,000</b>							
Jan-Sep 06	900	195	22	29	48	3	1,197
Jan-Sep 07	796	181	47	40	66	0	1,130
<b>RM250,001 – RM500,000</b>							
Jan-Sep 06	1,440	489	184	81	160	4	2,358
Jan-Sep 07	1,577	519	172	108	184	1	2,516
<b>RM500,001 – RM1,000,000</b>							
Jan-Sep 06	379	149	65	45	111	9	758
Jan-Sep 07	603	214	88	54	143	4	1,106
<b>RM1,000,001 &amp; above</b>							
Jan-Sep 06	94	44	53	16	173	5	385
Jan-Sep 07	181	73	60	32	177	1	524
<b>Total</b>							
Jan-Sep 06	11,707	1,583	413	847	1,295	53	15,898
Jan-Sep 07	10,804	1,541	422	982	1,386	24	15,112



Source: National Property Information Centre (NAPIC Penang), Valuation and Property Services Department, Ministry of Finance Malaysia.

**Table 20: Average Sales Prices of Residential Properties in Penang State Encompassing All Districts, and by Property Type (Overall Comparison between Q3 2007 and Q3 2006)**

	Q3 2007 (RM/Unit)	Q3 2006 (RM/Unit)
Property Type		
1 - 1 1/2 Storey Terraced	153,990	134,107
2 - 3 Storey Terraced	310,289	262,225
1 - 1 1/2 Storey Semi-Detached	288,428	237,912
2 - 3 Storey Semi-Detached	531,939	496,088
Detached	824,460	589,033
Cluster	79,286	99,136
Low-Cost House	77,833	89,391
Low-Cost Flat	54,414	58,622
Flat	127,383	116,494
Condominium/Apartment	256,604	248,962

Note: ND – No Data

Source: 'Residential Stock Report, Q3 2005, Q3 2006 & Q3 2007', Valuation & Property Services Department Ministry of Finance Malaysia

**Table 21: Penang - Supply and Occupancy of Commercial Property, as at September 2005 and September 2006**

Type	As At September 2006			As At September 2007		
	No. of Buildings	Total Space (s.m.)	Occupancy Rate (%)	No. of Buildings	Total Space (s.m.)	Occupancy Rate (%)
Purpose Built Office	225	1,001,275	73.8	227	1,013,073	73.9
Shopping Complex	78	935,563	70.1	81	1,082,380	68.0

Source: National Property Information Centre (NAPIC Penang), Valuation and Property Services Department, Ministry of Finance Malaysia.

As at September 2007, there were altogether 227 purpose-built offices with more than 1 million square meters of office space (Table 21). The average occupancy rate remained relatively stable at 73.8 per cent (as at September 2006) compared to 73.9 per cent (as at September 2007). Occupancy rates for office space in Seberang Jaya (80.35%), Perai (85.6%) and Butterworth (74.1%) have exceeded the state average of 73.9% in the first 3 quarters of 2007, with Georgetown (71.8%), Tanjong Tokong (63.6%) and Bukit Mertajam (69.9%) all recording lower occupancy rates. The rental of purpose-built offices remained fairly stable during the first nine months of the year.

At the end of third quarter 2007, a total of 81 retail / shopping complexes with approximately RM1.1 million s.m. of space were in stock. This represents an increase of total space and a decrease in occupancy rates as compared to the same period in 2006. An additional 6,680 s.m. of retail space became available during the first nine months of this year, resulting in a notable drop in overall occupancy rates in shopping complexes. Retail / shopping complexes in Bukit Jambul, Seberang Jaya and Sungai Dua recorded significant declines in occupancy rates, as compared to those in Bayan Lepas, which registered the highest occupancy rate.

## Industrial Sector

The industrial sector registered an increase of 2.18% to 422 from 413 transactions last year, while total transaction value climbed 16.55% from RM324.8 million to RM378.6 million during the initial 9 months of 2007 (Table 19). The industrial sector contributed 8.70% of total transaction value for the state, which represents a marginal increase of 0.93% per cent from the same period in 2006.

Up to the third quarter of 2007, the industrial property in the price range of RM250,000 to RM500,000 accounted for nearly 40.75% of the total transaction volume (Table 19), which represents a 4.25% decrease as compared to the same time period in 2006.

A majority of the transacted properties reported within the first 9 months of 2007 have taken place on the mainland as they mainly cater for a sizable number of small and medium enterprises (SMEs) located there. As in previous years, Seberang Perai Tengah (SPT) registered the highest number and value of transactions for industrial property during this period. Despite some downward movement in Daerah Timur Laut, prices of industrial properties generally remained stable in most instances.



## Agricultural Sector

In terms of total volume and value of transactions, agricultural land recorded a steady growth of 15.94% and 32.00% respectively for the first nine months of 2007 compared to the same period in the previous year (Table 18). A significant increase in the number of higher value transactions was noted, particularly in the properties above the RM200,001 band. In general, most transactions involved vacant and paddy land in the areas of Seberang Perai Utara and Seberang Perai Tengah, and palm oil land in Seberang Perai Selatan.

## Development Land Sector

The transaction volume of development land recorded an increase of 7.03% as compared to the same period in 2006. However the overall transaction value decreased by 3.97%. There were notable increases in the number of land transactions within the RM100,001 to RM200,000 bands, as well as the RM500,00 to RM1 million band. This sector accounted for the second largest percentage (20.7%) transaction value of the various property sub-sectors in the period of January to September 2007 (Table 18). The highest number of transactions was recorded on the mainland, particularly in Seberang Perai Tengah, with Seberang Perai Utara recording the highest growth as compared to the same period in 2006.

## Issues & Challenges

The property overhang (built but unsold) has improved slightly in Q2 2007 as compared to Q1 2007. A slight decrease in residential property overhang in Seberang Perai Tengah and Seberang Perai Utara in Q2 2007 as compared to Q1 2007 signifies an improvement in the property uptake in these areas. A slight decrease in the overhang of shop units within the Seberang Perai Tengah area in Q2 2007 also signifies a slight improvement in uptake. However, there is an emerging number of overhang shop units in Seberang Perai Selatan. Overhang in industrial property remains relatively unchanged.

**Table 22: Overhang Properties, 2nd Quarter 2006 and 2nd Quarter 2007 (of more than 9 months)**

District	Overhang (unit)					
	Residential		Shop		Industrial	
	Q2 2007	Q1 2007	Q2 2007	Q1 2007	Q2 2007	Q1 2007
Daerah Barat Daya	0	0	ND	ND	ND	ND
Seberang Perai Selatan	72	72	21	0	ND	ND
Seberang Perai Tengah	224	262	48	88	18	18
Daerah Timur Laut	0	0	0	0	20	20
Seberang Perai Utara	85	99	ND	ND	ND	ND
Penang	381	433	69	88	38	38

Source: National Property Information Centre (NAPIC Penang), Valuation and Property Services Department, Ministry of Finance Malaysia.

The oversupply of shopping complexes/retail space in Penang has remained as one of the major challenges to the Penang property market in the past few years. A lower average occupancy rate (68%) in shopping complexes (Table 21) may signify the beginning of a glut in the supply of space within shopping complexes. This is particularly true in Seberang Perai Tengah as evidenced by stagnating demand in Megamall Pinang. As Queensbay Mall targets a higher tenancy rate, shopping complexes such as Island Plaza, Prangin Mall and Midlands One-Stop have seen demand stagnate. Stiff competition among existing retail space suppliers will take place once again in the near future when new projects within the Bayan Baru area such as Wikiworld and Mayang Mall Phase 2 kick off.

Rising property prices, particularly that of landed property on the island has resulted in local residents often being priced out of the market, hence making way for an influx of foreign investments into Penang property. Although this is often seen as a positive move to encourage the flow of foreign direct investments (FDIs) into the state, there is a noticeable trend of local residents being forced to look elsewhere to purchase property, particularly on the mainland. According to industry sources, rising property prices, particularly that of landed residential property has led to lower rental returns of such property over the years, with an estimated average rental return of 5%.

The recent shortage of supplies and the rising price of steel and cement could have a negative impact on the construction industry and may result in delayed implementation of projects in the state. There is uncertainty in the supply of both materials despite producers charging higher prices than the approved range of between RM400 and RM500 plus per ton for steel bars and between RM2 and RM3 plus for 50kg of cement. As contractors continue to absorb the price increases as a cost of doing business, the added risk of price volatility may lead to cash flow problems which could result in stalled projects. The Automated Pricing Mechanism (APM) for these commodities, which comes into effect on 1<sup>st</sup> January 2008, will hopefully result in more stable prices. However, close monitoring of the production schedules and delivery status of steel bars and cement by the Ministry of Domestic Trade and Consumer Affairs Malaysia is necessary to ensure the success of such an initiative.

Other challenges faced by the property sector include the shortage of skilled labour, particularly architects, engineers and experienced project managers who have been lured away by better remuneration packages in developing countries such as China and Vietnam. Rising fuel prices which will exert upward pressure on transportation costs and the increasing number of fake land deals are also potential problem areas facing the property sector.

## Outlook for 2008

The outlook for the property sector in Penang is expected to maintain positive in 2008. The residential property market, particularly, will be supported by healthy demand from both locals and foreigners alike, combined with what has been an already stellar year for the Malaysian equity market and robust national economic growth.

Two notable government initiatives in the second quarter of 2007 are expected to have a positive impact on Penang's property sector in 2007/2008. Firstly, the government's move to abolish the real property gains tax in 2007 will undoubtedly have a positive impact on the market, particularly on the secondary market (of low to medium-cost properties). This initiative will make it more affordable for lower-income groups to own homes in Penang. Secondly, the initiation of the One-Stop Centre for projects under the 'build then sell' (BTS) concept as a form of incentive for developers has resulted in a more efficient delivery system in obtaining approvals in land-related matters such as planning permission, new housing projects, land conversion and land development. This is seen as a positive move to bring about general improvement in the public service delivery system from the perspective of housing developers.

In order to further promote home ownership, the federal government has made two budget allocations under the 2008 Federal Budget aimed at encouraging home ownership for individuals. Firstly, to encourage ownership of a residential property, it was proposed that instruments of transfer for purchase of a house not exceeding RM250,000 be given 50% stamp duty exemption, which is granted to one house per individual. The proposal is effective for sale and purchase (S&P) agreements executed from 8 September 2007 to 31 December 2010. Secondly, it was proposed that the instruments for transfer of property between husband and wife on the basis of love and affection be exempted from stamp duty, effective 8 September 2007. The first allocation will undoubtedly ease the burden on individuals looking to purchase low to medium-cost properties such as flats, and apartments/condominiums within the RM100,001 to RM 250,000 bands. On the other hand, the second allocation is to encourage the strengthening of family values and the provision of financial security to a spouse.

As of 2006, the removal of the cap on the number of loans given to non-residents and the lifting of the requirement to obtain Foreign Investment Committee approval for foreign ownership of residential properties above RM250,000 are also expected to support the Penang property market. According to industry sources, this is particularly true for foreign participants of the Malaysia My Second Home (MM2H) Programme, who are now also enjoying new and better incentives, such as obtaining up to 80% housing loans as compared with the usual 60% for foreign applicants. Nonetheless, there is still a need to streamline and rationalize the administrative and approval processes for the MM2H Programme, particularly from the perspective of customs and immigration. In order to expedite the programme for the benefit of the Penang property market, industry sources have called for a government supported "one-stop approval centre" for such programmes, wherein applicants are able to submit all the necessary documentation for approval, and where all enquiries can be answered in the shortest possible timeframe.



With the advent of the NCER (Northern Corridor Economic Region) project, Penang is poised to see a significant increase in infrastructure construction in the next few years starting from 2008. Numerous projects have been lined up to initiate and propel Penang into the ranks of a modern global metropolis. The projects appear to be of a scale large enough to change the face of property development within the state in its entirety.

These projects will also boost efforts to make Penang the transportation and logistics hub of the NCER. More recently, Prime Minister Datuk Seri Abdullah Ahmad Badawi, unveiled a list of proposed projects for the state under the NCER initiative promising to turn Penang into the "Gateway to the Northern Corridor".

With the onset of such potentially "face-changing" development plans, Penang may witness a complete change in the property market in terms of public expectations and mindset, which will have a deep and considerable impact on how we view property here. However, many questions, often concerning the implementation of these projects still remain unanswered, such as the ability of the population to cope with the high environmental costs of such projects, and scalability of demand. Penangites have, in the past, enjoyed a higher quality of life as compared to other states in Malaysia. The question now is: Will Penang still be able to maintain this in the advent of large scale infrastructure development? **§ Ooi Ying-Chieh and Khor Hung Teik**

## **vi) TRADE, WHOLESALE AND RETAIL**

### **Trade Overview**

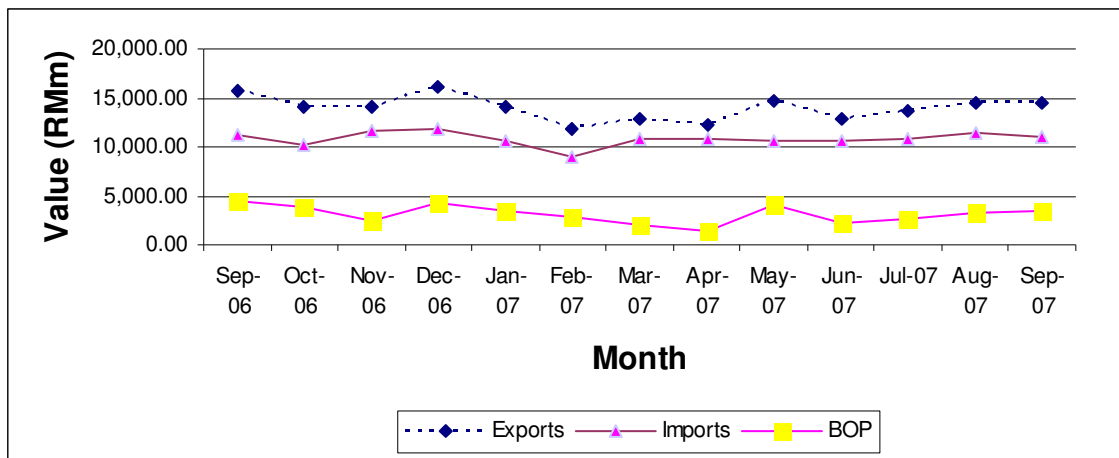
**Table 23: Exports, Imports and Balance of Trade in Penang**

Period	Exports (RM bil)	Imports (RM bil)	Balance of Trade (RM bil)
Jan-Sep 2007	121.30	95.80	25.50
Jan-Sep 2006	128.20	97.00	31.20
Y-o-Y Growth (%)	-5.40	-1.20	-18.30

Source: Department of Statistics (DOS), Malaysia

For the first 3 quarters in 2007, Penang reported a value of trade of RM 217.10 billion, down from RM225.20 billion for the same period in 2006. From Table 23, it can be seen that total exports declined from RM128.20 billion to RM121.30 billion, a decrease in the growth rate of -5.40%. Total imports for the first three quarters in 2007 also showed the same trend. Imports decreased from RM97.00 billion in the first 9 months of 2006 to RM95.80 billion for the same period in 2007, which is a -1.20% decrease in growth. The trade balance in Penang is still favourable with exports exceeding imports despite the decrease in the growth balance of -18.30% for the same period in 2006.

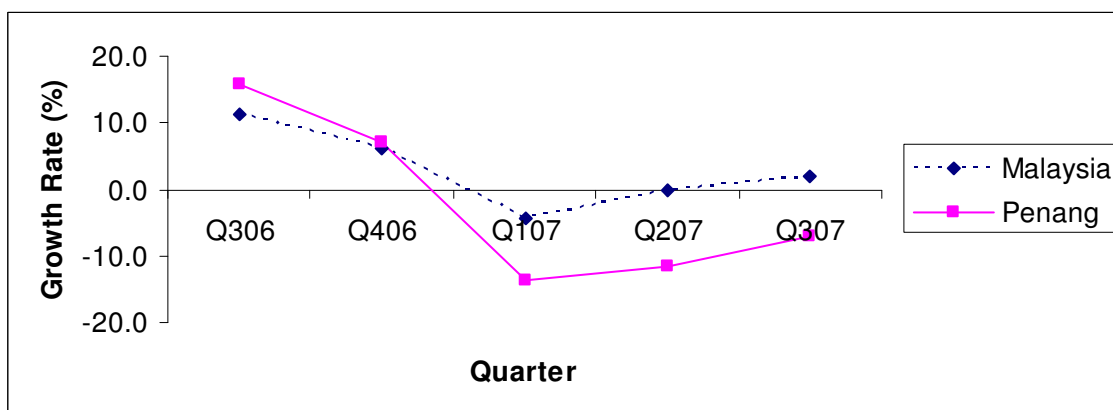
**Figure1: Exports, Imports and Balance of Payments (BOP) for Penang (September 2006- September 2007)**



Source: Department of Statistics (DOS), Malaysia

The exports and imports generally show a similar trend except for the month of November 2006, where exports and imports moved in the opposite direction. As shown in Figure 1, both exports and imports in Penang decreased at the start of 2007, slowing down in the first two months of the year because of the Chinese New Year festivities and public holidays after exhibiting positive growth in December 2006. The amount of exports and imports however recovered in March and grew at a constant rate in April. Exports and imports peaked in May with the value of exports and imports at RM14.70 billion and RM10.70 billion respectively. However, in June, both exports and imports declined to RM12.90 billion and RM10.60 billion respectively before experiencing consistent increases for the next three months. One reason for the increase is because of the rising oil prices, which would promote the export of petroleum related products as well as higher consumer spending and an expansionary fiscal policy<sup>2</sup> that encouraged imports. In addition, it can also be seen from Figure 1 that the trend for the balance of trade is the same as that for exports except for the month of March where there was a downward trend in the balance of trade, compared to an upward trend in exports.

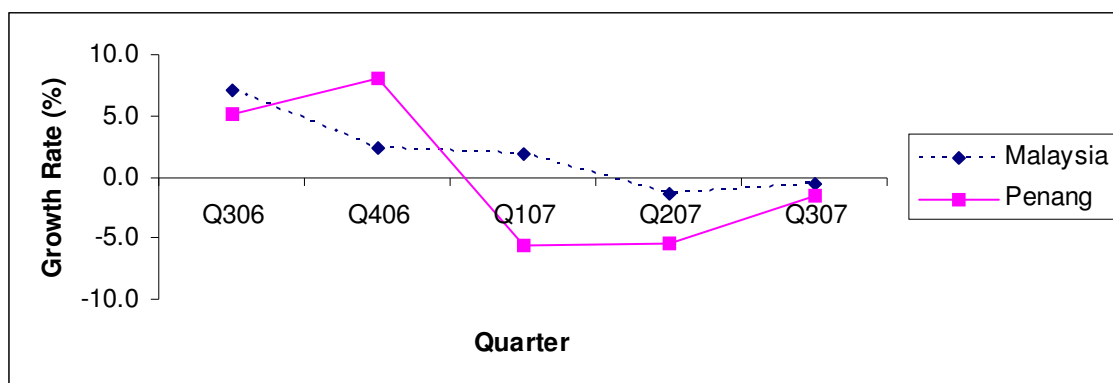
**Figure 2: Growth in Exports for Penang and Malaysia**



Source: Department of Statistics (DOS), Malaysia

<sup>2</sup>National Economic Action Council (NEAC), Malaysia

**Figure 3: Growth in Imports for Penang and Malaysia**



Source: Department of Statistics (DOS), Malaysia

**Table 24: Growth in Exports (%)**

Malaysia				
Quarter	Exports (RM bil)	Quarter	Exports (RM bil)	y-o-y Growth (%)
Q305	47.68	Q306	53.12	11.4
Q405		Q406	52.53	6.20
Q106	51.28	Q107	48.99	-4.50
Q206	49.22	Q207	49.17	-0.10
Q306	53.12	Q307	54.16	1.96

Penang				
Quarter	Exports (RM bil)	Quarter	Exports (RM bil)	y-o-y Growth (%)
Q305	13.59	Q306	15.72	15.67
Q405	15.00	Q406	16.06	7.07
Q106	15.01	Q107	12.95	-13.72
Q206	14.61	Q207	12.92	-11.57
Q306	15.72	Q307	14.59	-7.19

Source: Department of Statistics (DOS), Malaysia

From both Figure 2 and Table 24, it can be seen that since experiencing positive growth in exports over the last two quarters in 2006, the growth rate of exports in Penang has declined significantly from a positive rate of 7.07% in the Q406 to a dampened rate of -13.72% in Q107 due to weak demand in the electrical and electronics (E&E) sector.

The rate of exports for Penang continued on a negative growth rate for the next two quarters (Q207 and Q307), with an improving growth trend for each quarter, probably due to the improvements in exports of non-electronic products such as palm oil and oil related products.<sup>3</sup> It can also be seen that Malaysia's exports grew at a negative rate of -4.50% and -0.10% for Q107 and Q207 respectively while the growth rate expanded to 1.96% in the third quarter of 2007. The reason for this is because of the downturn in the world economy, influenced by the recession in the US economy due to the subprime crisis, which does not sit well with an export orientated economy like Malaysia.

<sup>3</sup>National Economic Action Council (NEAC), Malaysia

As shown in Figure 3 and Table 25, the trend of growth in imports for Penang is similar to that of growth in exports. From experiencing a positive growth over the last two quarters in 2006, growth of imports in Penang declined substantially from a positive rate of 8.13% in Q406 to a negative growth rate of -5.57% in Q107. The negative growth remained fairly constant over the next quarter before slowly picking up in Q307. This trend could be linked to the dynamics of an expansionary monetary policy, coupled with the expansionary fiscal policy of the 9<sup>th</sup> Malaysian Plan (9MP) that strengthened domestic demand in the wake of the less vibrant economy and the weak electronics market. The increases in imports were also because of the increase in the import of intermediate manufacturing goods as well as capital goods.<sup>4</sup>

**Table 25: Growth in Imports (%)**

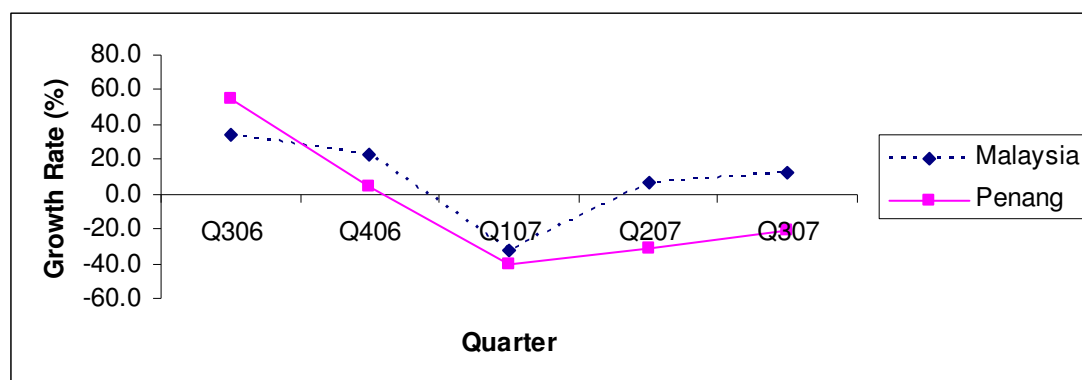


<b>Malaysia</b>				
<b>Quarter</b>	<b>Imports (RM bil)</b>	<b>Quarter</b>	<b>Imports (RM bil)</b>	<b>y-o-y Growth (%)</b>
Q305	40.06	Q306	42.88	<b>7.04</b>
Q405	40.04	Q406	40.94	<b>2.25</b>
Q106	41.70	Q107	42.46	<b>1.82</b>
Q206	40.98	Q207	40.39	<b>-1.44</b>
Q306	42.88	Q307	42.69	<b>-0.44</b>
<b>Penang</b>				
<b>Quarter</b>	<b>Imports (RM bil)</b>	<b>Quarter</b>	<b>Imports (RM bil)</b>	<b>y-o-y Growth (%)</b>
Q305	10.71	Q306	11.25	<b>5.04</b>
Q405	10.95	Q406	11.84	<b>8.13</b>
Q106	11.50	Q107	10.86	<b>-5.57</b>
Q206	11.19	Q207	10.57	<b>-5.54</b>
Q306	11.25	Q307	11.08	<b>-1.51</b>

Source: Department of Statistics (DOS), Malaysia

<sup>4</sup>Bank Negara, Malaysia

**Figure 4: Growth in Balance of Trade for Penang and Malaysia**



Source: Department of Statistics (DOS), Malaysia

**Table 26: Growth in Balance of Trade (BOT) (%)**

Malaysia				
Quarter	BOT (RM bil)	Quarter	BOT (RM bil)	y-o-y Growth (%)
Q305	7.62	Q306	10.24	<b>34.38</b>
Q405	9.43	Q406	11.59	<b>22.91</b>
Q106	9.58	Q107	6.53	<b>-31.84</b>
Q206	8.24	Q207	8.78	<b>6.55</b>
Q306	10.24	Q307	11.47	<b>12.01</b>

Penang				
Quarter	BOT (RM bil)	Quarter	BOT (RM bil)	y-o-y Growth (%)
Q305	2.88	Q306	4.47	<b>55.21</b>
Q405	4.05	Q406	4.22	<b>4.20</b>
Q106	3.51	Q107	2.09	<b>-40.46</b>
Q206	3.42	Q207	2.35	<b>-31.29</b>
Q306	4.47	Q307	3.51	<b>-21.48</b>

Source: Department of Statistics (DOS), Malaysia

With a negative growth rate for both exports and imports in Penang for the first three quarters in 2007, it can be seen from Figure 4 and Table 26 that the growth rate for balance of trade also registered a negative figure over the same period of time.

## Future Outlook

Despite slow growth in both exports and imports, the exports of electrical and electronics (E&E) goods have showed signs of improvement since January and is expected to further improve with a gradual spillover from the improved performance of Singapore's E&E sector. In addition, according to JP Morgan Chase Bank's Matthew Hildebrandt from Asia Economic and Credit Research, there is also a potential for growth in imports for the coming months due to the increase investment and private consumption through the modest appreciation of the Ringgit, the relaxation of restrictions on investment in the private sector as well as wage hikes for civil servants from the 2008 Malaysian Federal Budget.

## Wholesale and Retail



The retail and wholesale industry for 2007 recorded an improvement compared to the previous year. The Consumer Sentiments Index (CSI) for Q3 2007 increased by 10 points to 117.5 points, as opposed to 107.5 points in the corresponding quarter in 2006, based on the consumer confidence survey carried out by MIER and reflects rising consumer optimism. With interest rates and inflationary pressures relatively stable, an increase in disposable income due to the recent pay rise in the public sector that took place in July brought about a spike in shopping activity among consumers. Consumer spending already off to a promising start is not showing any signs of slowing down and seems likely to remain strong for the coming months.

The 3Q07 Retail Trade Index (RTI) showed an upward trend, reaching 145.9 points compared to 88.4 points in 2006. The RTO shows no impending signs of reversal of the positive trend in 3Q07. Based on the MIER survey, the current sales performance component increased significantly to 77.5 points in the third quarter, along with an improved business component performance. Retail survey in 3Q07 showed improvements in sales, business situations, orders and sale price. One of the factors contributing to the increase in sales performance is the Mega Sale carnival held from June to September, with top retailers from Penang (outlets include big names such as Queensbay, Gurney Plaza and Kompleks Bukit Jambul), all geared up for the carnival and shops along Campbell Street and vibrant Little India with their own promotions and discounts. Other attributes include the ongoing Visit Malaysia Year 2007 Campaign, Malaysia's 50<sup>th</sup> Merdeka Celebrations and the seasonal arrival of Middle East tourists to Penang, whose holidays coincided with the Merdeka celebration and Mega Sale carnival as well as the Deepa-Raya celebrations.

With inflationary pressure on the rise again, as indicated by the gain in inflation to 1.90% in Aug 2007, up from 1.40% in June 2007, rising food and commodity prices have led to increased price pressures. Despite the increasing costs and inflationary pressures, retailers are trying to keep prices low by absorbing the cost increases. This cost absorption has come in the form of progressively narrowing the profit margin and sacrificing the variety of choices made available to consumers as well as downsizing the size of products.

Small retailers are filling the pinch from the increase in oil prices, which translates to the increase in the prices of goods, services and transportation. They are unable to obtain sufficient stocks for certain price-controlled items such as oil and flour up to the point where they are not able to provide the items on their customers' shopping list.<sup>5</sup> In addition, the goods are bought at the very ceiling of the controlled price, and no profits would be made if the merchandise were sold at the cost price. In addition, as small retailers, they are not able to compete with bigger supermarket outlets that are able to make use of their economies of scale and buy in large quantities at lower costs. Any increase in the wholesale price would ultimately affect their prices. Also, in addition to competitive pricing, smaller retail shops in the inner city are facing tough competition from big retail chains that are able to supply better facilities in order to attract more customers.

Another languishing retail centre that is following in the footsteps of the now defunct Super Komtar and Super Tanjung is Berjaya One-Stop Complex. Once a popular shopping destination, it is now reduced to an eyesore with many retail shops closed due to pitiable maintenance and poor buying power. Another factor contributing to this is the emergence of bigger retail complexes such as Queensbay and Mayang Mall that are providing better facilities and services, thereby drawing customers away from those retail complexes.

Despite the different outcomes for the retail industry, with the increase in the wages of civil servants, Christmas season, end-of the year sales, and year end bonuses to employees, there is optimism that the outlook for the retail sector is expected to improve right through to 4Q07, as long as cost structures do not continue to increase and eat into the profit margins of retailers and wholesalers. **§ Ng Ju-Ai**

## vii) LOGISTICS

Under the NCER plan, Penang has been tagged to be transformed into an integrated logistics hub and is poised to serve as the import and export gateway for the northern corridor. Before realizing the full potential of Penang as the regional logistics hub, a number of infrastructural frameworks need to be installed and further upgraded. These initiatives include the construction of the RM2.7 billion Second Penang Bridge, the on-going expansion or widening works on the existing Penang Bridge, the expansion of facilities and extension and realigning of runways at the Penang International Airport (at Bayan Lepas), the extension of existing berths, deepening of the wharf as well as upgrading of the handling facilities of Penang Port and other tangible and visually-impressive logistics infrastructure projects.

Penang is the home base to a thriving electronics and semiconductor industry. Most of the electronics and semiconductor products from the Bayan Lepas FIZs are exported through the Penang International Airport (PIA). Nevertheless, the air cargo movement of the PIA has registered contracted growth from January to July 2007. Despite rebounding quite strongly in September, the overall performance has dropped by nearly 9 per cent for the first nine months of 2007, against the last corresponding period (Table 27).

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<sup>5</sup>The Star, Stretching the Ringgit, 4<sup>th</sup> November 2007.

**Table 27: Penang International Airport – Cargo Movement (Kgs), 2006 and 2007**

	2006	2007	% Change
January	17,269,855	16,222,022	-6.1
February	17,929,103	15,542,311	-13.3
March	21,198,351	18,016,361	-15.0
April	20,474,038	17,131,780	-16.3
May	18,190,387	14,507,298	-20.2
June	19,918,946	17,121,807	-14.0
July	18,954,320	18,151,008	-4.2
August	17,843,508	18,276,722	2.4
September	17,291,170	19,119,587	10.6
Total	169,069,678	154,088,896	-8.9



Source: Penang International Airports, Monthly Statistics Report, Sept 2007

In the first eleven months of 2007, Penang Port, in terms of container handling, has registered an increase of 9.6 per cent over the same period in 2006. The total throughput of the port has recorded an overall growth of 8.2 per cent, despite the double digit drop of nearly 11 per cent in September as well as a decline of 7.1 per cent in October 2007 (Table 28).

### Challenges

The increase of crude oil prices to nearly USD100 per barrel had exerted tremendous upward pressure on the cost of transportation worldwide. The market expects fuel prices to hike up further in 2008 (after the last increase in early 2006) as the financial burden of the government in subsidizing the petroleum is soaring.

The increase in various surcharges, the trade imbalance's effect on rates, rising jet fuel prices and the carriers' route development are among the global factors that pose stiff challenges to the air logistics sector in Penang. On domestic challenges, air logistics operators highlighted the issue of insufficient warehouse space for forwarding agents at the existing Penang airport cargo terminals. Limited land for airport expansion, the holding costs on land acquisitions, insufficient warehouse space, particularly on the island and the lack of access in terms of direct flights to / from Europe, Australia and New Zealand are among the bottleneck factors that could hamper the air logistics sector in Penang.

For shipping and maritime logistics, the increase tonnage in shipping has exerted pressure on freight rates, forcing shipping lines to seek greater efficiency. In order to stay competitive and appeal to potential clientele, Penang Port needs to be able to host larger vessels efficiently with minimum turnaround time. This challenge has resulted in Penang Port making heavy investments to provide infrastructure to handle super-sized ships and to complement a steady flow between the container yard and quayside. Also, port safety, security and environmental practices are among the related areas that require attention.

**Table 28: Penang Port – Total Throughput, 2006 (Jan-Nov) and 2007 (Jan-Nov)**

	Total Throughput (in FWT)			Container (TEUs)		
	2006	2007	Change (%)	2006	2007	Change (%)
Jan	1,674,764	2,041,273	21.9	63,860	76,870	20.4
Feb	1,808,666	1,845,158	2.0	60,549	66,677	10.1
Mar	2,062,249	2,412,755	17.0	72,199	74,614	3.3
Apr	1,923,019	2,343,823	21.9	67,035	72,530	8.2
May	2,058,653	2,257,841	9.7	66,744	78,578	17.7
Jun	1,980,413	2,216,231	11.9	67,917	75,869	11.7
Jul	2,132,241	2,380,622	11.6	72,308	78,336	8.3
Aug	2,053,883	2,374,829	15.6	76,637	78,624	2.6
Sep	2,524,394	2,256,668	(10.6)	78,156	84,449	8.1
Oct	2,502,635	2,325,190	(7.1)	75,534	80,461	6.5
Nov	2,309,841	2,458,108	6.4	72,698	80,713	11.0
Total	23,030,758	24,912,498	8.2	773,637	847,721	9.6

Source: Derived from the data provided by Penang Port Sdn Bhd

Furthermore, there is an increased security concern due to the robbery and hijacking of bonded trucks, causing the rise of operating costs (higher insurance premiums and expenditure to improve security) for the industry players.

The failure to meet the shipment schedule due to the massive traffic jams at Penang Bridge, especially during peak hours, accidents or vehicle breakdowns, as well as the bridge expansion work has incurred substantial losses to both manufacturers and logistics service providers.

The small and medium-sized local logistics service providers are facing challenges due to their inability to participate in international logistics activities as a result of limited use of ICT and poor IT linkage and a lack of local and cost-competitive logistics/supply chain information system providers (partly due to lack of logistics-competent IT professional). These service providers are not scaled-up to tap into overseas corporate networks and are lacking in capital investment, which reflects uncertainty in business prospects.

Last but not least, the transportation component in the country's balance of payments has marked a greater deficit, from a shortfall of RM11.3 billion in 2001 to RM16.4 billion in 2005.<sup>6</sup> The deficit is expected to be broadened to a sum of RM25 billion in 2007. The larger deficit not only underscores the country's continued dependence on foreign logistics and transportation services, but also reflects the lack of solid local players in the industry.

<sup>6</sup>Economic Report, 2003/2004 and 2006/07

## The 2008 Outlook for Penang's Logistics Industry

The outlook of the logistics industry in Penang is very much associated with the performance of the manufacturing industry in the state. The air cargo business, for instance, will be closely correlated to the electronics and semiconductor industries, which are mainly located in the FIZs at the Bayan Lepas areas. The port, on the other hand, is mainly utilized for the import and export of paper products, machinery and components, plastic materials, electrical appliances, chemical products, rubber, sawn timber as well as wood moldings.

The market foresees that the container volume through the Penang Port will continue to grow. Due to high freight rates for bulk vessels, importers of raw materials such as scrap, soya beans and maize have switched from import through bulk to import through containers. The switch has contributed to the higher growth of containers through Penang Port and this trend is expected to be maintained through 2008. Furthermore, industry observers indicate that there will be increases in the import of raw materials such as scrap for the steel industry. New imports of iron ore, coal & coke by a steel plant to feed the new blast furnace system is expected to materialize in the third quarter of 2008. Moreover, the market projects that various infrastructure schemes of the NCER will start to pick up in 2008. Therefore, import of machineries and special steel products are expected to increase to meet the demand of these NCER initiatives. The market also projects some strong export growth, estimated at between 5 to 8 per cent, of rubber from southern Thailand, mainly due to the continued strong demand from China and India as well as the high price of synthetic rubber. The commodity will be sent via rail, road and barge from southern Thailand to Penang Port for export to overseas markets.

Nevertheless, Malaysian exports in November 2007 grew slowly due particularly to the decline in shipments of electronics products. The subprime crisis as well as high crude oil prices affected not only the US economy but other major economies such as Europe, Japan and Canada. These countries are the major export destinations for Penang / Malaysia. Some industry observers are of the opinion that the weakening economy in these countries, to a certain extent, will have an adverse impact on the Penang / Malaysian logistics industry, particularly the air logistics sector.

**§ Lim Wei Seong**

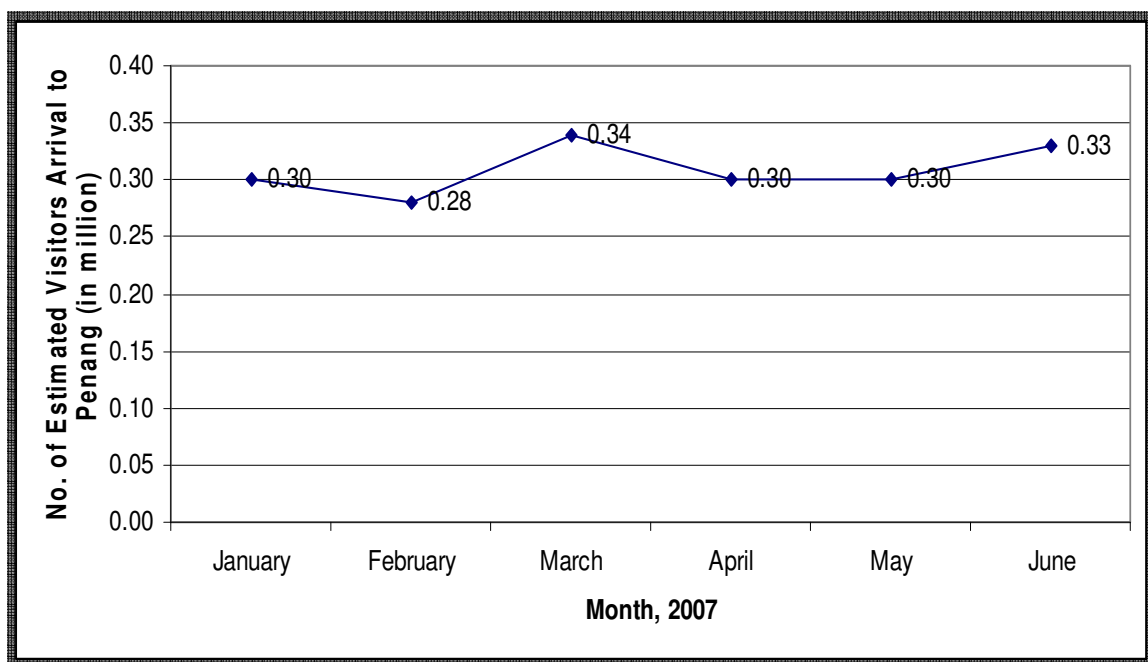
### viii) TOURISM

Penang has been attracting tourists from all over the world as a travel haven comprising of tropical island life, adventure, city excitement and oriental heritage. With entertaining art and dance forms and an exotic culture that represents a blend of history and diverse ethnic elements, Penang truly is a destination offering the best of Asia.

The year 2007 was designated and promoted overseas as Visit Malaysia Year. Compared to last year, the number of tourist arrivals increased to a promising figure. Chart 1a below highlights the gradual increase in the estimated total visitor arrivals to Penang from January to June 2007.



**Chart 1a: Monthly Estimated Visitor Arrivals to Penang, January – June 2007**



Source: Preliminary data from Monthly Estimated Visitor Survey 2007, SERI

As the figures show in the above chart, estimated visitor arrivals has dropped from 0.30 (million) to 0.28 (million) from the month of January to February 2007. But the number of estimated visitor arrivals has increased by a very encouraging margin in the month of March 2007, revealing a favourable turnaround compared to the months before. Even though there has been a slight drop in the months of April and May, the closing figure in the first half of the year proves to be a positive development. Statistics in the month of June show a very promising number of tourist arrivals at around 0.33 million visitors.

The overall AOR (Average Occupancy Rate) for the beach hotels has declined. The preference of visitors to Penang seems to have shifted to the city hotels, translating into a more favourable AOR for hotels located in town as compared to their beach counterparts. This trend is observed in Table 29, which highlights the AOR for the beach and city hotels in the 1<sup>st</sup> and 2<sup>nd</sup> quarters as well as the total 1<sup>st</sup> half of the year 2007.

City hotels which tend to attract a mix of leisure vacationers and business travellers saw a good turnover compared to the beach hotels. On the whole, while the figures for the 1<sup>st</sup> half of 2007 show a marginally lower occupancy rate than the AOR for the same period in the previous year, the prognosis for the 2<sup>nd</sup> half of 2007 remains optimistic.

**Table 29: Penang: Average Hotel Occupancy Rate (%)**

	BEACH HOTELS		CITY HOTELS		TOTAL	
	2006	2007	2006	2007	2006	2007
January	58.28	54.21	59.87	65.08	59.27	60.75
February	58.39	51.33	68.98	65.73	65.02	60.07
March	56.06	52.33	69.05	78.80	64.57	68.41
QUARTER 1	57.61	52.62	65.87	69.91	62.86	63.09
April	51.51	45.22	69.56	71.25	63.34	61.03
May	49.42	41.11	66.55	69.77	60.49	58.61
June	68.08	52.96	71.48	73.83	70.28	65.71
QUARTER 2	56.26	46.37	69.17	71.60	64.65	61.75
1 <sup>st</sup> HALF	56.96	49.48	67.51	70.77	63.74	62.41



Source: Monthly Estimated Visitor Survey 2007, SERI

Looking at the market mix in Table 30, domestic visitors constitute the biggest share of tourists. The share of domestic visitors registered at 58.1 percent in the 1<sup>st</sup> half of 2007. Compared to the previous year, the slight percentage drop in domestic visitors was compensated by the increased number of international tourist arrivals to the island. In the first half of 2007, arrivals from Japan and Australia contributed the highest percentages compared to the other countries. The number of visitors from the Middle East, USA, Thailand, the Netherlands and India showed a slight increase compared to the year before. In conjunction with Visit Malaysia Year 2007, visitors from Japan took the opportunity to explore Penang as both a holiday destination and a possible second home. The number of visitors from the Middle East also increased with the prospect of more arrivals in the 2<sup>nd</sup> half of 2007.

**Table 30: Market Mix, 1<sup>st</sup> Half, 2006 & 1<sup>st</sup> Half, 2007**

	1 <sup>st</sup> Half, 2006 (%)	1 <sup>st</sup> Half, 2007 (%)
Malaysia (Domestic)	58.6	53.2
Japan	4.5	6.6
United Kingdom	4.1	4.1
Australia	2.8	4.1
Singapore	5.2	4.0
Middle East	2.4	2.8
Indonesia	5.3	2.4
China	2.3	2.3
USA	1.9	2.0
Thailand	1.8	2.0
Hong Kong	1.3	1.2
Netherlands	0.9	1.1
Taiwan	1.9	1.0
India	0.8	1.0
Germany	0.8	0.8
South Korea	0.7	0.5
Others	4.7	10.9
TOTAL	100.0	100.0

Source: Preliminary data from the Monthly Estimated Visitor Survey 2007, SERI

## Prospects for 2008

Generally, there is a renewed hope in reviving the tourism sector in 2007-2008. The tourism sector showed positive growth in conjunction with the introduction of Visit Malaysia Year 2007. However, a few issues and challenges remain to be addressed for the continued expansion of the sector in 2008. The first one would be the quality and hygiene aspects of the tourist spots found around the island. The existing tourist attractions, namely the Snake Temple, KOMTAR, Penang Hill, Botanical Garden, etc. should be well maintained to satisfy tourists' demands for quality and cleanliness. Good hygiene standards remained high on the priority list for tourists, as surveys show some measure of dissatisfaction with the low level of cleanliness of public facilities like toilets in the popular tourist spots in Penang.

Another area for improvement would be the public transportation network and services. Expanded bus services should be provided to link commuters to the more distant tourist spots, namely to Batu Maung, Bayan Lepas and other destinations on the island as well. The recent introduction of Rapid Penang has eased some of the major public transportation woes, but there is still a lack of travel facilities to certain more remote tourist spots and off-the-beaten-track places in Penang. Tourists who use the bus services should be able to enjoy a clean, efficient public bus journey which offers a quality ride comparable to trips on the more exclusive private 'tourist-guided' coaches. In addition to that, taxi services should be revamped as it is fast becoming one of the main modes of transportation taken by tourists and visitors in Penang. The fares and safety aspects are the main concern of the users. PETS (PEMPENA Executive Taxi Services) back in Kuala Lumpur introduced luxury or wide-bodied cars such as Mercedes E-200, Mercedes Vito and Naza Ria MPV as their vehicle of choice to attract tourists who may perhaps prefer to travel in greater style and comfort while on holiday.

To promote the tourism sector, the government has introduced several campaigns such as 'Malaysia Welcomes the World', 'Think Tourism', 'Act Tourism' and 'Mesra Pelancong'. At the state level, several new activities were promoted in Penang to boost the local tourism drive, such as the World Music Festival that was held in July 2007. More new activities, together with stepped-up campaign measures should be implemented to ensure the positive flow of income and number of tourist arrivals to Penang, the Pearl of the Orient, in the following year.

Eco-Tourism, Health Tourism and Education Tourism are the three main areas expected to boost the tourism sector in 2008. Eco-Tourism will definitely continue to be a promising new area of attraction for international and local visitors. There will be great opportunities for growth in this area as the island is blessed with verdant nature and hiking trails cutting through hills in green pristine regions like Teluk Bahang, Pantai Kerachut, Pulau Jerejak and Penang Hill. The Pulau Jerejak Resort is part of the RM207 million Pulau Jerejak International Eco-Tourism Project covering 32.7ha targeted for completion by 2010 to attract more visitors to the island. Meanwhile, Health Tourism and Education Tourism are also expected to grow next year as the state has the infrastructure, facilities and specialist skills needed to support expansion in these areas.

Credit should be given to the Penang Tourism Action Council for its comprehensive range of promotional efforts. In summary, more can still be done to attract a higher number of tourist arrivals to the island. Besides giving priority to resolving the fundamental problems such as the lack of good public transportation, traffic congestion, pollution and low levels of cleanliness, the state should be increasingly focused on developing new programmes and activities while maintaining and upgrading the quality of existing facilities and attractions.

**§ Parimala Devi**

## ix) EDUCATION

In the recent budget 2008 that has been announced by the government, free education is now made available for all Malaysian students. This will benefit 5.7 million students for the 2008 school session compared to only 4.5 million students in 2007. The major beneficiaries would be those who are in the lower income group and those who have more than two or three children. Such families would need to spend much less on school-related expenses.

Besides making education free for all, the federal government has recognized the importance of human capital especially in critical areas of Malaysian higher education. An increase in allowances for critical courses and science courses in public universities will definitely lead to a higher scholarship value offered by private companies or other private institutions. This move not only helps to spur domestic enrolment in the higher education sector but will definitely attract more international students to study in Malaysia.



However, in recent highlights of Malaysian education news, the tertiary education sector has shown a significant decline in international ratings. The leading Malaysian universities were somehow not listed among the 'Top 100 Best Universities' either regionally or globally. To date, there are 52 registered universities and colleges in Malaysia comprising of local public universities and private universities / colleges. The list of the universities and colleges in Malaysia and the respective institutions' URL are shown in Table 31 below:

**Table 31: List of Universities / Colleges & URL**

No.	Name of Universities	Domain (URL)
1	ASIA PACIFIC INSTITUTE OF INFORMATION TECHNOLOGY	apiit.edu.my
2	ASIA PACIFIC UNIVERSITY COLLEGE OF TECHNOLOGY & INNOVATION	ucti.edu.my
3	BRITISH MALAYSIAN INSTITUTE	bmi.edu.my
4	CURTIN UNIVERSITY OF TECHNOLOGY SARAWAK CAMPUS	curtin.edu.my
5	DISTED-STAMFORD COLLEGE	disted.edu.my
6	HELP UNIVERSITY COLLEGE	help.edu.my
7	INSTITUT PERKIM-GOON / PTPL COLLEGE	ipg.edu.my
8	INSTITUTE INFOTECH MARA UNIVERSITY OF KUALA LUMPUR	unikl.edu.my
9	INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA	iiu.edu.my
10	INTERNATIONAL MEDICAL UNIVERSITY	imu.edu.my
11	INTI COLLEGE SARAWAK	intisar.edu.my
12	INTI INTERNATIONAL GROUP OF UNIVERSITY & COLLEGES	intimal.edu.my
13	ISLAMIC SCIENCE UNIVERSITY OF MALAYSIA	usim.edu.my
14	KBU INTERNATIONAL COLLEGE	kbu.edu.my
15	KDU COLLEGE	kdu.edu.my
16	LIMKOKWING UNIVERSITY OF CREATIVE TECHNOLOGY	limkokwing.edu.my
17	MAJLIS PEPERIKSAAN MALAYSIA	mpm.edu.my
18	MANAGEMENT AND SCIENCE UNIVERSITY	msu.edu.my
19	METROPOLITAN COLLEGE	metropolitan.edu.my
20	MONASH UNIVERSITY MALAYSIA	monash.edu.my

21	MULTIMEDIA UNIVERSITY	mmu.edu.my
22	NILAI INTERNATIONAL COLLEGE	nilai.edu.my
23	OLYMPIA COLLEGE MALAYSIA	olympia.edu.my
24	SEGI COLLEGE	segi.edu.my
25	SUNWAY UNIVERSITY COLLEGE	sunway.edu.my
26	TAMAN PERTANIAN UNIVERSITY	tpu.upm.edu.my
27	TAYLOR'S COLLEGE MALAYSIA	taylors.edu.my
28	TUNKU ABDUL RAHMAN COLLEGE	tarc.edu.my
29	UCSI SEDAYA	ucsi.edu.my
30	UNIVERSITI INDUSTRI SELANGOR	unisel.edu.my
31	UNIVERSITI MALAYSIA KELANTAN	umk.edu.my
32	UNIVERSITI MALAYSIA PAHANG	ump.edu.my
33	UNIVERSITI MALAYSIA PERLIS	unimap.edu.my
34	UNIVERSITI MALAYSIA SABAH	ums.edu.my
35	UNIVERSITI MALAYSIA SARAWAK	unimas.my
36	UNIVERSITI MALAYSIA TERENGGANU	umt.edu.my
37	UNIVERSITI PENDIDIKAN SULTAN IDRIS	upsi.edu.my
38	UNIVERSITI PUTRA MALAYSIA	upm.edu.my
39	UNIVERSITI SAINS MALAYSIA	usm.my
40	UNIVERSITI TEKNIKAL MALAYSIA MELAKA	utem.edu.my
41	UNIVERSITI TEKNOLOGI MALAYSIA	utm.my
42	UNIVERSITI TEKNOLOGI MARA	uitm.edu.my
43	UNIVERSITI TEKNOLOGI PETRONAS	utp.edu.my
44	UNIVERSITI TENAGA NASIONAL	uniten.edu.my
45	UNIVERSITI TUN ABDUL RAZAK	unitar.edu.my
46	UNIVERSITI TUN HUSSEIN ONN MALAYSIA	uthm.edu.my
47	UNIVERSITI TUNKU ABDUL RAHMAN	utar.edu.my
48	UNIVERSITI UTARA MALAYSIA	uum.edu.my
49	UNIVERSITY KEBANGSAAN	ukm.my
50	UNIVERSITY OF MALAYA	um.edu.my
51	UNIVERSITY OF NOTTINGHAM IN MALAYSIA	nottingham.edu.my
52	UNIVERSITY OF NOTTINGHAM MALAYSIA CAMPUS	unim.nottingham.ac.uk

\* Source: <http://www.webometrics.info>

## **PENANG PUBLIC AND PRIVATE HIGHER EDUCATION**

The only public university in Penang is University Sains Malaysia (USM), sometimes referred to as the Science University of Malaysia. USM is one of four universities in Malaysia that has been identified as a research-intensive institution in tandem with its mission and vision to be a world-class university embarking on research programs via strategic planning and implementation of its R&D mechanism.

The university has a qualified academic staff and excellent human resource support in order to realize its mission of providing first-rate tertiary education programmes. In 2005, USM had around 35,000 students enrolled including 28,000 undergraduates. The number of lecturers was about 1,800, yielding a student-lecturer ratio of around 1:20. ([http://en.wikipedia.org/wiki/Universiti\\_Sains\\_Malaysia](http://en.wikipedia.org/wiki/Universiti_Sains_Malaysia)).

In the Malaysian federal budget for 2008, a sum of RM12 billion is provided for the implementation of various higher education projects and programs, including enhancing research, development and commercialization activities (RD&C) in four research-intensive universities including USM. An expected outcome of this program would be USM providing more R&D opportunities to local and international students in the future. A productive relationship could be fostered in a public-private partnership or alliance between USM and local private education institutions. This move will offer students working experience as well as an opportunity to be involved in the R&D sector. Both parties would benefit through enrolment of students in the private colleges, the sharing of expertise between public and private institutions as well as professional working partnerships between USM and local private institutions.



Another institute of higher learning which plays a significant role in tertiary education in Penang is the newly opened Universiti Terbuka Wawasan (WOU), which is located in the "Millionaires' Row" of Penang, Jalan Sultan Ahmad Shah. Officially launched on 22<sup>nd</sup> September 2006, WOU was Malaysia's second Open University after the Universiti Terbuka Malaysia (OUM). Funded by the Wawasan Education Foundation, the University is a tax-exempted entity that offers various courses of higher learning tailored especially for adult learners through open distance-learning modules. Its main campus is located at the site of heritage-listed Homestead Mansion, and was officially opened in January 2008. Currently, WOU has 4 main schools/programmes namely Business and Administration, Science & Technology, Foundation and Liberal Studies and Graduate Studies. The establishment of WOU in Penang will benefit more than 5 million Malaysian school-leavers with Sijil Pelajaran Malaysia (SPM) qualifications who are unable to pursue further tertiary-level education due to various reasons.

Penang currently has 32 registered private colleges offering various sought-after courses. These colleges have taken consistent measures to attract domestic as well as international students. Usually, towards the end of the academic year, local private colleges will use various advertisements as one of their main strategies in getting and increasing new intakes. Banners, streamers and billboards promoting the respective private colleges can be seen in various places on the streets of Penang, and even in the neighboring states of Kedah, Perlis and Perak.

With strong competition from other colleges in the central region of Malaysia (especially in the vicinity of the federal capital and the Klang Valley), the only way to reach out to students from the southern states is through newspaper advertisements, education articles, road shows and internet ads. The Penang state government also contributed through the Tertiary Education Committee of Penang (a sub-committee under the umbrella of The Penang Education Consultative Council -PECC) by organizing the Penang Tertiary Education Fair that was held on 7-9 December 2007 at Queensbay Mall Penang.

As of 2007, the Penang Tertiary Education Committee representing the Penang tertiary education sector has participated in three education fairs: Beijing, China (2004), South Korea (2005) and Medan, Indonesia (2007). Although there is no indicative data on the outcome of participation, the feedback in response and interest shown were positive, especially in Indonesia. In this regard, recommendations were made by the committee to participate more in Indonesian education fairs in the future due to its great potential as a market for foreign student intake. At a glance, Indonesia has a population of 234,693,997 (July 2007 est.) and the population of Indonesians aged between 15 – 64 years old is around 65.6% (153,959).

The Penang state government has put in its best effort to make Penang an attractive place to live and study. Besides continuous direct support given to local private colleges, the state government has also improved its local public transportation by introducing a systematic and integrated public bus system. Apart from the suitability of courses offered, foreign students also take into consideration the mode and ease of transportation from the hostel or the place of residence to the colleges they attend. Other factors considered would be a safe and vibrant living environment, convenient support services / infrastructure and other related resources.

To conclude, Penang private colleges and the public higher education sector should collaborate with the state government and work towards establishing Penang as a learning hub and centre of educational excellence in the region. § *Baharulnizam Baharum*



## **E. 2008 OVERALL OUTLOOK**

### **External influence**

Fundamentally speaking, the U.S., European, Asian and even Malaysian economies are actually quite sound. Even though the Japanese economy trails behind in the low positive numbers, the circumstance has much improved from the deflation years that ended only in recent years after more than a decade. Growth numbers announced by the Malaysian Institute of Economic Research (MIER) at its annual National Outlook Conference late November 2007 are 5% for the world, 2%-3% for the U.S. economy, 2% for Japan, 2%-3% for Europe, >6% for Asia and 10% for China through 2008 and 2009. Barring various types of risks, these are pretty decent figures that will allow the economies across the world to roll along fairly smoothly.

### **Domestic demand and growth in the economy**

It has long been said that despite the shadows cast by export orientation, trade surpluses, and oil revenues, the real powerhouse behind Malaysia's economy is its sizable middle class. Over the recent years, private consumption has grown on average by nearly 11% annually. Factoring in public sector spending and investments, the total domestic demand has grown by nearly 10% a year. In terms of contribution to the gross domestic product, private consumption makes up nearly two-thirds of the economy.

For these reasons, consumer sentiments as well as resiliency among the populace are vital to the country's economy for which public safety (crime prevention and control), civil liberties (the people's freedom) and social interaction (cross-cultural integration) become priority issues. These are both vulnerable as well as fragile matters of local polity that is better developed and sustained through empowerment of the masses, a process characteristic of advanced societies. Basically, the scenario suggests a bottom-up source of growth as opposed to the traditional top-down development from state-induced action plans.

## Production capacity

Malaysia has become a 30% manufacturing and 60% services share economy with agriculture, construction and mining filling up the gap in between to make up the remaining 10% of the economy. This pattern of production structure will likely sustain since both manufacturing and services have been growing by 6%-7% annually and continue to outperform the agricultural, construction and mining sectors. What this means is that Malaysia's economy is now flying on two engines: a domestic (private consumption) source and an external (trade) source of growth that will, at least for now, allow the pilot to throw some switches around for a smoother flight should either domestic or external conditions change.

## Uncertainties

Understanding that politics has a strong influence on the economy, both the world as well as the domestic economy can develop in a variety of scenarios. Both Malaysia and the U.S. are in their election year. In the weeks to come, political developments will bring more certainties but right now, circumstances remain fluid with many possibilities. Basically, at the moment, the market is in a wait-and-see mode.

Dangers abound around and along the growth path. Thus far, the subprime crisis has not made much of an impact on Malaysian shores. The property sector is poised for further growth (construction projected to grow by 5% annually during the next two years) in Malaysia amidst implosions in the global property market. Oil prices at more than US\$100 per barrel is one possible scenario, firing the inflation pressures that oil prices help to drive. Policy makers are unprepared to address inflation at this time as recent actions indicate. The U.S. Federal Reserve reduced its policy rate by 75 basis points (as an emergency measure amidst signs of recession) to 3.5% a week before its scheduled 29th January 2008 meeting and then, quite surprisingly, pushed rates down by a further 50 basis points to the current 3% on 30th January. If inflation hovers around 2%, there is now very limited scope for further policy-making since lenders would want a rate that covers both the inflation adjustment as well as a premium for loss of use of their capital (i.e. the Fisher effect). **§ Dr Chan Huan Chiang**



## F. CONCLUSION

The present is one of those times when economic figures and numbers from even the recent past become less useful. Such numbers tell how the economy has fared thus far, but at present, people are in an anticipation mode. There is excitement over who is fielding which seat and what each party intends to execute should they come into public office – both in Malaysia and in the U.S., since both countries are in their election year. Oil prices have held the breath of nearly all of us – has it peaked and is now on the way down or should we be prepared for a further rise in prices? Are property values going to go up as market talk suggests or will the property bubble burst in Malaysia as it has happened in much of the rest of the world?

Uncertainties make business decision-making very unnerving but in Malaysia there is the consolation that its economy has now multiple engines that can be selectively turned on and off by the pilot to suit changing circumstances. It should be an adventurous ride for the economy in the year 2008, with some clever twists and turns needed to avert the dangers lurking along our course. **§ Dr Chan Huan Chiang**

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### SERI RESEARCH TEAM

YBhg Dato' Dr. Leong Yueh Kwong	Executive Director
Dr. Chan Huan Chiang	Economic Advisory Panel
Dr. Goh Ban Lee	Economic Advisory Panel
Professor Muhamad Jantan	Economic Advisory Panel
Professor Cheah Kooi Guan	Economic Advisory Panel
Professor Suresh Narayanan	Economic Advisory Panel
Professor Lai Yew Wah	Economic Advisory Panel
Mr. Khor Hung Teik	Acting Head, Environmental Section
Mr. Lim Wei Seong	Head, Economic Section
Cik Fatimah Hassan	Senior Programme Coordinator
En. Baharulnizam bin Baharum	Senior Programme Coordinator
Mr. Richard Ho Weng Keong	Research Analyst
Ms. Ng Ju Ai	Research Analyst
Mr. Ooi Ying Chieh	Research Officer
Mr. Ng Kar Boon	Research Officer
Ms. Parimala Devi	Research Officer
Cik Athirah Azhar	Research Officer

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