

# The 2008 Budget: Understanding the Scope of Government Participation in the Economy

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## Introduction

As citizens of the nation, we should often ponder the question of how much should the government (the public sector) be doing as opposed to how much we should be left alone to freely lead our own lives. It is a balance between doing things collectively and privately. One extreme is to pool the fruits of all our labours and with this collective wealth decide how best society can benefit from it. This is the socialist society. At the other extreme is to leave everybody to fend for themselves, in which case, there will be interactions between people where exchange is carried out and we have an emergence of a market. The tailor will meet up with the farmer so that food can be bought for clothes at the rate of say what one day's worth of labour. In the pure market society the less productive, such as senior folks or those who are ill might end up neglected and unaided. Between these two extremes a given society like Malaysia seeks to find that fine balance between collective and individual production so that market efficiency was well as care for the nation and its people as a whole are both well tended. There is something Rawlsian in seeking this balance. John Rawls<sup>1</sup> viewed the social contract in a just society as based on two principles. First the rights of everyone are equal and second, there will be social and economic inequalities "in order to inspire citizens to work". This balance will ensure that no one is left behind deprived and yet market rewards from hard work is possible, essentially making society fair (like in a socialist society) and yet vibrant (like in a market economy).

## How large is Malaysia's public sector?

Forty years ago in 1967, Malaysia's public sector budget was a quarter of the national income, i.e., the gross national product or GNP. The budget crept steadily upwards to a maximum of 48.2% of GNP in 1981 but has since declined back to the quarter of GNP mark during the past few years<sup>2</sup>. Table 1, shows the budget and GNP figures of recent years. Malaysians set aside a quarter of its collective income to have goods and services delivered through a club-like arrangement outside of the market. In this "club" all Malaysian residents are members and the government is like the club committee and the taxes residents pay, the club subscription.

**Table 1: Malaysia – The Budget and GNP, 2006 - 2008**

Year	Operating	Development	The Budget	GNP
(RM million)				
2006	107,694	34,961	142,655	555,199
2007	123,873	37,865	161,738	607,212
2008	128,799	39,227	168,026	661,729
				Bgt/GNP
2006	75.49%	24.51%	100.00%	25.69%
2007	76.59%	23.41%	100.00%	26.64%
2008	76.65%	23.35%	100.00%	25.39%

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<sup>1</sup> John Rawls (1971) *A Theory of Justice*. Belknap-Harvard University Press.

<sup>2</sup> Ragayah Haji Mat Zin (1997) "Discussant paper to preparing the public sector for 2020: lessons from Industrialized countries" in Sulaiman Mahbob, Flatters, F, Broadway, R, Wilson, S and Yee, E (eds.) *Malaysian Public Sector in the Twenty-First Century*. Queens University Canada and the Malaysian Institute of Economic Research, Kuala Lumpur, pp.24-29

Financing the Malaysia's public sector budget has interesting characteristics as well. Income (direct) taxes amount to about half of the budget, in other words about 12% - 13% of the GNP. This means that on the average (not counting wage or corporate incomes or what high or low income earners pay) income tax incidence is about one-eighth of our total income. This is actually low by world standards. However, while income taxes pay for about half of the budget, Malaysian residents pay an additional 16% or so of the budget funding by way of indirect taxes (sales tax and so on) such that together, both direct and indirect taxes pay for about two-thirds of the budget.

If the government does eventually implement the goods and services tax (GST) it can be different forms that might change over time. The GST, as announced, can become the single form of indirect taxation replacing different types of existing sales tax but the amount of funds raised will not differ from the present. This would mean that direct income taxes would not likely be affected. On the other hand, the GST may be required to raise more than the present amount of indirect taxes in order that direct income taxes can be proportionately reduced. If this happens, then the tax burden would be more widespread across the population instead of being contributed by the one million income earners who fall within the taxable income bracket. Overall, however, one would expect that whatever the combination, direct and indirect taxes would pay for two thirds of the public sector budget.

The remaining one-third is financed by various forms of government revenues which includes proceeds from the sale of the country's oil and borrowing to cover the financing shortfall (about 12% of the budget finance, amounting to 3.1% of the gross domestic product, GDP of 2008). Part of government revenues is also what government charges for its services at point of use. The amount is about less than 10% of the GNP. This means that while the government spends a quarter of the GNP to deliver goods and services it only invoices an amount of about 10% of the GNP, in other words billing only forty cents for one dollar worth of goods and services provided. Those that use public services get, on average, a 60% discount and the discount is increasing, since from 2008, children going to public schools get a 100% discount.

### **Who pays for public goods and services and who receives?**

In a society made up of rich and poor people, these two groups vote for active government provision of public services like schools, hospitals and public transport funded through tax monies<sup>3</sup>. The taxes are mostly paid by the rich but they don't use these public services, preferring instead to buy such services in the form of exclusive and expensive private schools, private hospitals and private transport beyond the reach of the poor. It is the preferred arrangement between rich and poor, one group enjoying exclusivity, and the other, free public services. Tax monies, however, will not provide for quality service and as the economy evolves into a large middle class society, the concern for quality education, health care and transport begin to be of concern among the people. Studies have continuously shown that as people pay more for the services they use, quality does improve. Once when poor people could not afford, they did not mind so much about quality but when they become middle class, children's education and health care standards become an issue.

Malaysia has long since become a middle class society. There was once a time in this country when most of us, middle class folks of today, did not exist. Once, there were only the rich and either rural peasants or the urban working class that make up the people of this land. Then, being poor, most people looked towards the government so that their lives can be better: bridges to cross rivers and roads so that daily incomes can be earned, schools for the kids and hospitals when they fall sick. Paying for these facilities appear not to be an issue as somehow the government seems to be able to get money from somewhere.

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<sup>3</sup> Bos, D. (1980), "The democratic decision on free versus taxes" *Kyklos* 33(1):76-99.

Today, quality services have become important. Thus the relationship between the people and the government has transformed from the dependence or welfare-charity model to a new model involving how best middle class income can be divided between private expenditure and public expenditure, in Malaysia, this being three-quarters private and one-quarter public.

### **Individual social responsibility**

Today's choice between private spending and collective spending is a question of individual social responsibility, no more the once-upon-a-time issue of what can the government do for us. The reason is that most of us do not see ourselves as welfare-charity cases, depending on others if our lives is to be made better, because for anyone who receives public benefits, there must be someone else giving but not receiving. The government is not manna from heaven but has instead to be financed through the public budget. Somebody has to be paid, thus begging the question: do we see ourselves as a giver or a recipient of public benefits (a donor or a welfare recipient)?

Only about a million people fall within the tax-paying bracket on the basis of their income levels. This number is only 4% of the country's population or 9% of the country's income earners. Not counting dependents (children and the aged), there is only 1 taxpayer to 10 non-tax payers among people who earn a living. Furthermore, large numbers within the one million tax payers pay only a minimum tax. At a chargeable income level of RM20000 annually (someone who say earns RM3000 a month before the usual deductibles) the tax bill is only RM475 less RM350 of rebate a year, or about RM10.42 a month (the cost of a meal). For this, children now go to school completely free and there is the protection from police and the military plus public health care of reasonable standards. In 2007, the government has spent some RM16 billion on petrol subsidies (which works out to more than RM600 per person in the population), in other words, average subsidies from petrol is well above the taxes due to the majority of tax payers. Bottom line, these numbers suggest that most people in Malaysia are welfare recipients of the public budget, when as residents of a modern middle class society they should instead be donors.



### **Development and growth across the different states**

Malaysia became a nation in 1957 as a federation comprising the different states and thus more equitable economic growth across the different states becomes a constitutional obligation within the nation's development plans. Spatially economic vibrancy has long been centred in the Klang valley but more recently we hear news about the Iskandar Development Region (IDR) in Johore and the Northern Corridor Economic Region (NCER). The 2008 budget also talks about dedicated development funding (RM4 billion plus RM1 billion for electrification) for Sabah and Sarawak. But after 50 years from independence, the nation's people have inevitably evolved from their state origins. What this means is that while individual states will still be specially targeted for development, the development objective is to spatially distribute growth rather than to bring development to the people of particular states. The reason is during the last fifty years and several generations there have been a lot of inter-state migration as well as inter-marriages by people from different states. The vibrancy of the economy in the Klang valley is testimony of the productivity of the nation that comprises people from many walks of life and people from varying state origins. Babies born today have little likelihood of a state-origin in the 1957 sense, that is, what is constitutionally obligated to the people from different states when the federation was formed.

Thus in essence, spatial development and special development areas like the IDR and NCER should not be seen as bringing development and economic growth to the people in these regions but to all peoples across the nation. If all goes well, IDR and NCER will one day be like what the Klang Valley is today, vibrant but comprised of people originating from different states. More equitable spatial development is not new to Malaysia. Unlike its ASEAN counterparts, Jakarta (10 million people), Manila (9 million) and Bangkok (7 million), Kuala Lumpur Federal Territory has only 1.6 million people. Rural to urban migration in search of economic activities has been the typical

characteristic in the development of young nations over past decades resulting in what geographers called primate cities where a sizable proportion of the country lives in one town. Bangkok, for instance, is 35 times more populated than Chiang Mai, Thailand's second largest city. More equitable spatial development in Malaysia, on the other hand, did not result in the creation of any primate city.

### **But town planning in Malaysia continues to fail**

I once read somewhere that migration into Mumbai, India's economic capital has caused the city's planners to give up because more people arrives each day at a rate much faster than town planning can put in the necessary infrastructure and support services to meet the needs of the city's population. In 1995, Malaysia's town planners asked for and were given the Town Planners Act (Act 538, 1995), citing the need for more holistic approach to physical development that incorporates population and economic growth, the social space and the landscape. What the act did was it took the signatory rights of plan submission from architects and into the hands of members of the Malaysian Institute of Planners (MIP).

Thirteen years later, the budget allocation includes a RM1.1 billion nationwide flood mitigation plan and an additional RM120 million to clean up rivers. Frequent flooding aggravated by polluted rivers during thunderstorms have become intolerable today when more than a decade ago, Malaysia's town planners assured the public that by giving them the Planners Act, they will make the living landscape around us both functional and beautiful. Today, roads in the nation's cities are clogged with traffic and hazardous judging from road fatalities. Inadequate and thus leading to illegal car parking further worsens the situation making cities less functional.

The issue is this. Will members of the MIP get their act together and deliver on its 1995 promise to Malaysians or should the planners act be rescinded so that we can all be spared of the fees that we have paid town planners for more than a decade that did not produce the expected results of the cityscape that was promised to us.

### **The budget is efficient**

If the shortcoming in town planning is seen as one example of market failure (in this case the construction industry) because negative externalities were not averted, then government intervention, i.e., public sector allocation becomes an appropriate response. Identifying how public funds should be spent to address what the market has neglected to provide is what makes the public budget efficient. Efficiency, economically speaking, is measured by the extent to which information is processed in determining how much should be the allocation. In the competitive market, all the information is contained in the price (resource inputs, the method of production, output volumes, demand levels, etc.) and efficiency can be achieved through a set of Lerner's rules<sup>4</sup>. But when the market is absent and no price signals are possible then information processing has to be done to attempt a consensus, in which case efficiency remains possible if the Wicksellian *unanimity rules* can be applied<sup>5</sup>.

In Malaysia, the budget dialogue process is nearly a year long affair. Government agencies make consultations with interest groups: business enterprises, non-government organizations, academics and research institutions, private interest groups, position papers are drawn up, decisions made weighing also the fiscal implications, culminating in the budget speech in Parliament in September. The speech is scheduled on a Friday afternoon after the stock market has closed so that there will at least be a weekend cooling off period if there is going to be any reaction when the market opens again on Monday morning. Between the budget speech and the end of the year, there remains work to be done. Tax implications on certain groups of people may be unique because of their peculiar circumstance that provisions (such as fiscal incentives) made in the budget do not readily apply.

<sup>4</sup> Abba P. Lerner (1944) *The Economics of Control: Principles of Welfare Economics*. MacMillan, N.Y.

<sup>5</sup> Knut Wicksell's original article called *Finanztheoretisch Untersuchungen* was published in 1896, but most of us learn of his work from R A Musgrave and A T Peter (1958) *Classics in the Theory of Finance*. MacMillan, London



These would require the tax departments to make specific *public rulings* (*ketetapan umum*) that would set an unambiguous interpretation of the budget provisions. Meanwhile there are also the fiscal impacts to be analysed based on the response by the public as they make adjustments in order to take advantage or minimise the burden brought by the budget. In other words, even though the public budget is not a market process that has inherent efficiencies, the massive amounts of information processed throughout the year thus enable efficiency to be achieved in the form of general consensus.

### **CSR cannot be efficient based on Wicksell's unanimity rule**

These days, meeting the needs of the community is no longer limited to the exclusive role of government via the public sector budget but we are getting frequent news reports of corporate bodies in Malaysia getting involved in community projects under the heading of *Corporate Social Responsibility* or CSR. Economists argue against CSR activities by private business claiming that corporate interest should focus strictly on profits and competitiveness these being the principal obligation by corporations to their stock holders. For example David Henderson<sup>6</sup> observed that if CSR activities lead to higher business cost and hence higher prices, they will lead to welfare reductions to society. Basically, CSR expenditures may make the company doing it look good but it is society that bears the costs. More recently, Robert Reich<sup>7</sup> a professor from University of California Berkeley and labour secretary during the Clinton administration took the argument further claiming that "supercapitalism", as he puts it, endangers democracy by taking power away from ordinary citizens.



It gets worse. The 2008 budget has set aside an initial sum of RM50 million by way of CSR funds to jointly finance CSR projects alongside private companies, suggesting that where part of our tax money goes are being decided by private business. There have also been talks in the recent years about fiscal incentives for CSR projects, meaning that private companies want to pay less tax for the social activities they perform.

The Wicksellian form of efficiency achieved via unanimous consensus suggests that the government becomes the institution through which collective social choice and wants are supplied. This consensus is expressed through the ballot boxes and deliberations made transparently in the Parliament. Public rhetoric arising from government plans provides feedbacks. We call this democracy, put into action through the public sector budget and funded via taxes. But when private business either access even part of our tax monies or avoid paying some of its own tax obligations just because they spend on community projects, then essentially they are stealing mandate from the people, because we did not elect corporate personalities to decide how public monies should be spent.

The success of CSR hails from highly visible benefits in Africa, like health and education programmes and facilities, established by corporations. CSR has made livelihoods much better for many people there but this is because in many African states, governments have failed to provide even the most basic of facilities. This cannot be true in Malaysia where the government has done very well to elevate living standards since becoming independent a half century ago. Remember, Malaysia started at about the same footing with many African states when liberated from colonialism and thus to depend on CSR in Malaysia is saying that there remain huge gaps in public goods and services that the government has not done as well in providing.

A better term is *best practices* rather than CSR. This means doing business honestly and not to sell in such a way that would harm both employees and consumers alike. Good business practice includes avoiding pollution by a clean supply and waste disposal chain, ensuring product safety, fair pricing that matches price with quality and good customer relations. Best practices ensures long term business integrity and sustainability and even if fiscal incentives can help companies along towards this goal, the important thing is decisions on how much companies will be helped remains in the hands of the elected government. **§ Dr. Chan Huan Chiang**

<sup>6</sup> David Henderson (2001) *Misguided Virtue: False Notions of Corporate Social Responsibility*. Hobart Paper 142, Institute of Economic Affairs. London.

<sup>7</sup> [Robert B. Reich](#) (2007) *Supercapitalism: The Transformation of Business, Democracy, and Everyday Life* Borzoi Books. by (Author)

# Why is a Plate of Nasi Lemak More Expensive in some Restaurants?



Ever wondered why having a plate of nasi lemak in a restaurant costs so much more compared to buying a packet from the nasi lemak seller along the street? To some people, this thought would have slipped past their minds, but for “Economists”, we love a good mystery, and as someone who grew up reading mystery novels, to understand this difference in pricing is like trying to solve a good mystery. Let us return to the ‘nasi lemak’ issue. If you bought a packet of nasi lemak sold along the roadside, it would cost RM1. For that RM1, the nasi lemak would include rice, the “sambal”, some “ikan billis”, a piece of egg and piece of fried fish or prawn. Diverting from the nasi lemak seller, consider the change in scenario, where you are in a nice comfy restaurant, and you order a plate of nasi lemak. When the waiter brings you the nasi lemak, you get a big plate, which contains most of the same ingredients as the nasi lemak bought from the street corner; rice, sambal, ikan billis, half an egg and a piece of fried fish. Probably in this case, you would get a bigger portion of everything than what you would get from buying along the street. Also, the restaurant would include other additional ingredients, for example extra pieces of beef or chicken ‘rendang’, a few slices of cucumber and some ‘poppadom’ to go with it (One does wonder if those restaurants actually buy the nasi lemak served from the seller on the street, then “jazzes” it up with a few additional ingredients and make you pay through the nose! However, that is another issue and is better left to one’s own judgement).

When the waiter finally brings you your check, two things could happen. On one hand, the RM19 attached to the item ‘nasi lemak’ would strike you as utterly ‘preposterous’, making you kick up a fuss and ultimately embarrassing yourself and being kicked out of the restaurant (of course after having paid for that plate of nasi lemak that is slowly being digested in your system). On the other hand, the RM19 for that plate of nasi lemak would have been your expectation already, since you expect a plate of nasi lemak to cost more in restaurants than buying a packet from the street.

This raises the question of, if there is already the expectation that a plate of nasi lemak served in restaurants are expensive, then how did it become expensive in the first place? There are a few theories out there, but what this article is trying to address is, the issue of the big price difference between the nasi lemak sold; RM1 against RM19, a difference of 1900%! With RM19, you could have bought 19 packets of nasi lemak from the seller on the street. However, before proceeding with the economic intuition behind his phenomenon, let us go back to the nasi lemak ingredients. How much different can a plate of nasi lemak be, compared to the one bought from the street? A reasonable answer would be ‘not much’. As observed, most of the ingredients used are similar, other than the quantity and quality of the ingredients. Include the extra pieces of beef or chicken rendang and poppadom into the mix, and we would have a plate of nasi lemak that would obviously have a higher cost than the one sold on the street. How high? The answer is subjective, but one thing that most people would agree, is that charging RM19 for a plate of nasi lemak based on just the difference in the quantity and quality of ingredients is way over the top. So, if the ingredients are not a justification for this extreme price difference, then what is? Things start to get interesting once we bring Economics into the equation.

Post this question to a bystander and you would probably get an angry response of how these restaurants are such a rip-off and should be charged. Ask someone with a minimal knowledge in Economics and you would get a typical answer of ‘price discrimination’. In Economic jargon, price discrimination is described as being charged different prices for the same product. As tempting as this idea may sound, think again! In order for price discrimination to happen, the restaurant owner needs a certain degree of monopoly power. He or she requires monopoly power not just for the nasi lemak market, but for the whole restaurant, from the water they serve to the chairs patrons occupy!

In a competitive market, if a rival restaurant (Restaurant B) charges for example RM0.50 less than our restaurant (let us call it Restaurant A), then it would attract all the customers away from Restaurant A. Seeing this, in comes an incumbent Restaurant C, where it charges even less for a plate of nasi lemak than what either Restaurants A or B are charging, therefore stripping away all customers from both restaurants. The price cutting process will continue until all customers are paying the same price for a plate of nasi lemak. This simple example shows that price discrimination prevails only if it is impossible to have customers being lured away by fellow competitors. So, if this expensive plate of nasi lemak is not a consequence of restaurant owners exhibiting price discrimination, then what is it? Here is a possible explanation.

Take the street nasi lemak seller. He or she probably needs only a table, and a chair (maybe an umbrella to protect from the scorching sun) in order to sell the packets of nasi lemak. Customers pass by, pay for the packets bought and are off on their way. Simple and easy. Now shift the scene to an air conditioned restaurant. Take a young couple on a first date. The man (call him Ahmad) desperately wants to impress his date (Aminah), so he brings her to a nice cosy restaurant, with well trained staff, clean environment and good ambience to go with it; perfect for a first date. Aminah orders something off the menu (most probably a bowl of salad, either because she watches her weight, or maybe because of first date jitters; who knows?). Ahmad on the other hand, decides that he is extremely hungry and orders himself a plate of the 'house special', nasi lemak (probably too preoccupied with impressing Aminah to notice the price attached to the plate of nasi lemak in the first place!). At the end of the night, when the waiter brings him the bill, the RM19 for that plate of nasi lemak gives him the shock of his life (along with the cost of the total bill that includes the other items consumed). Unwillingly, he pulls out his wallet, pays the bill and vows never to return to the restaurant and decides on the spot to take Aminah to the nearest hawker stall for their second date ('IF' there is a next time!).



So, what just happened? Ahmad obviously thought paying RM19 for a plate of nasi lemak was 'outrageous'. However, as strange or even crazy as this may sound, actually, paying RM19 for a plate of nasi lemak is not as unreasonable as what most people would think. Why? Answer: "Cost"; both explicit and implicit. Explicit cost includes the ingredients used, as discussed earlier. To begin with, the RM19 price for a plate of nasi lemak not only covers the cost of ingredients, but also contributes to the electricity bill of the restaurant, as well as the cost of nice cutlery to go with it, (not forgetting serviettes and décor in the restaurant too!). In addition, the restaurant does not charge you for the water served (assuming the water is boiled water, and not taken straight from the tap, but that is another issue). What they don't tell you is that the cost for the amount of gas used to boil the water served is probably added into the cost of the nasi lemak. Let's not forget another important explicit cost; rent. Rental in the restaurant is probably high, thus the contribution to the cost of that plate of nasi lemak. In addition, there are also costs for having the restaurant menu printed as well as for advertisement flyers. If the restaurant you go to is a well established one with a good reputation, then you are probably paying for its reputation too! Let us consider two scenarios.

Take scenario one, where during the time of Ahmad and Aminah's date, the restaurant is full of other patrons. Now, when on a first date, it is obviously a getting to know you period (based on information from fellow sources). Therefore, our couple would probably stay longer at the restaurant than any of the other patrons there, hence taking up space (table, chairs, etc.) that may have otherwise been filled by new customers (who then order food, adding to the revenue of the restaurant). On a date, our couple takes their time to consume the food ordered, while enjoying each others' company and the ambience in the restaurant. However, the 'positive utility' they get from their 'date' and surroundings come as a cost to the restaurant owner, because every new customer not seated at a table is the loss of potential profit that could have been earned. This forgone revenue is what Economists call implicit cost, or in other words 'opportunity cost', and is interpreted as the value of resources used in the next best alternative.

In this case, the next best alternative is the potential new customers that the restaurant could have accommodated, had it not for our couple (which in this case is the best alternative, because if it was not, then the restaurant owner would have asked them to hurry up and finish their meal to pave the way for potential customers). Therefore, for the time Ahmad spends staring into Aminah's beautiful eyes in such a romantic setting, he is 'implicitly' incurring the cost for it through the nasi lemak he ordered. A joke was once told, whereby on their wedding anniversary, a woman asked her husband why the food in the restaurant that they were at was so expensive. To that, he replied, "Dear, 10% of what you pay is for the food. The remaining 90% is for the ambience"<sup>1</sup>.

Consider the second scenario. Business on that particular day is undoubtedly slow and bad. Only two tables are being occupied. In this case, the RM19 charged for a plate of nasi lemak includes the cost of labour; wages paid to waiters standing around doing nothing, and not forgetting the chef in the kitchen (hopefully not swatting mosquitoes!). In other words, Ahmad is implicitly paying for the cost of having empty tables in the restaurant through that mouth watering plate of nasi lemak!

From the two scenarios given, either way, the RM19 plate of nasi lemak Ahmad orders both pays for the restaurant's explicit and implicit cost of providing the service and comfort while he enjoys his plate of nasi lemak. As opposed to the nasi lemak seller at the side of the street, the seller does not need to provide cutleries or even an air-conditioned place for you to eat your nasi lemak (you'd probably have to use your hands!). Also, he does not have to pay for the cost of having menus printed and advertisement. So, if you feel that spending RM19 for a plate of nasi lemak is justifiable, do what satisfies you. However, if you are only prepared to pay RM1, then go right ahead; as long as your stomach's happy! **§ Ng Ju-Ai**

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<sup>1</sup> Does one dare put forth the opinion that in this case it is cheaper being single?

# International Headlines

## Business Tourists On The Rise

The Sydney Morning Herald, 11th September, 2007

Business conferences continue to pump money into the Australian economy with the number of delegates attracted to the country skyrocketing over the past few years. Around 166,400 business people had come to Australia during 2006-2007 which indicated an increase of 61 per cent in the past six years. Australia offers business travellers exactly what they are looking for from a conference destination. The Australian government promote goodwill about Australia around the world. The visitors were from a cross-section of countries but Asia was an important region. However, Australia could not now on its laurels with several Asian countries investing heavily in infrastructure emerging as threats to the market.



## India To Become Third Largest Economy By 2035

The Economic Times, 20th September, 2007

India would become the third largest economy in the world by 2035 if it continues to grow at the current rate of over nine per cent. Sustained nine per cent growth of Indian Economy will make India the third largest economic power of the world in the next quarter of a century. The country's GDP grew by 9.4 per cent in 2006-2007 fiscal and in the first quarter of the current financial year, it clocked 9.3 per cent growth. By 2025, world will be a bi-polar society wherein China will be the most influential country and by 2035, India would become the third largest economy, making the world tri-polar. The need for an inclusive growth will be focused on the poor to ensure the development which concern over 24 corer people who still live below the poverty line in India.

## China Cutting Trade Barriers

World News, 27th September, 2007

China has become a leader in tearing down barriers to business. China was ranked among the world's top 10 reformers, along with nations such as Egypt, Croatia and Ghana. A new property law helped to put private property rights on an equal footing with state property rights and made it easier for companies to find collateral for loans. China also adopted a new bankruptcy law in August, giving secured creditors priority to proceeds from their collateral. This reassurance is much likely to make more investors willing to finance projects in China. In the first eight months, 24,848 foreign enterprises invested in China. However, China was ranked 83 according to "ease of doing business".

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