

IMPACTING CHANGE THROUGH GOOD GOVERNANCE, ENVIRONMENTAL MANAGEMENT AND SMART PARTNERSHIPS (Part 1)

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1.0 INTRODUCTION

The people of Penang, Malaysia, concerned about their deteriorating quality of life as a result of consequent rapid urbanization and intense development that had also caused the State to be plagued by problems like hill collapse, floods, traffic jams, sacrificed heritage, social ills and many other 'side effects' of development, embarked on a journey of social change in 1997 along the lines of *citizen participation* and *good governance* to reverse the deteriorating trend through a project known as the Sustainable Penang Initiative (SPI). This was the first project of its kind in Malaysia, and perhaps in the region, to address the challenge of *sustainable development* by organizing participatory consultations, creating community indicators, and channeling the inputs into the State's strategic development planning. This is a bottom up, grassroots approach towards urban planning and management as opposed to a top down approach.

The process consisted of a series of consultative roundtables and public forums and meetings focusing on the five broad themes of Ecological Sustainability, Social Justice, Economic Productivity, Cultural Vibrancy and Popular Participation. About 600 people participated in total, contributing a total of about 5,000 people hours. Participants came from the public sector, schools and universities, business and industry, youth groups, community groups and NGOs.¹

The SPI process was initiated by the Socio-economic & Environmental Research Institute (SERI), the Penang State think tank, and was supported by the Canadian government (through the Canada-ASEAN Governance Innovation Network Program or CAGIN) and the UN agencies. The two-year programme sought to create networks and partnerships for sustainable development involving the state, NGOs and private sector, as well as the media and academia.

The SPI which was modelled after Sustainable Seattle, was undertaken even before the Federal Government implemented its first Local Agenda 21 projects in Malaysia. It flourished in Penang because of its progressive community setting and the fact that Penang is home to a number of international as well as national NGOs. The State Government was also open to venturing into new political processes.

The objectives of the project were to develop a broad series of indicators for gauging sustainable development and to develop the model for a holistic and sustainable development plan that takes into consideration social, cultural and environmental dimensions besides the conventional economic ones.

The output of the consensus process involved the relevant authorities in order to influence development planning and policy formulation, and to establish a mechanism to continue this consensus process beyond the lifespan of the pilot project.

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It also established a mechanism for public input and consensus-building based on partnership between government, the business sector and civil society, which has continued despite the recent change of State Government after the 2008 General Elections.

The process to promote greater public consultation and community participation in developing and using sustainable indicators for monitoring has continued with the recent revival of the process – SPI2 (Sustainable Penang Initiative 2), with the first roundtable sessions held on 28-29 July 2008.

2.0 THE GOVERNMENT SET UP

The Government set up in Malaysia is a 3-tiered one comprising a Federal Government, State Government and Local Government.

The role of each tier of government and their respective roles are explained briefly below:

2.1 The First Tier: The Federal Government.

The major role of the Federal Government is to provide and formulate national policies or laws related to solid waste management including recycling and relevant environmental issues. The agency involved at the federal level is the Ministry of Housing and Local Government.

The Ministry of Housing and Local Government is directly in charge of all the Local Authorities in Malaysia. It will direct policies passed by the parliament to the relevant Local Authority through the second tier government known as the State Government.

2.2 The Second Tier Government: The State Government

The State Government will study and deliberate on issues or policies passed by the Ministry of Housing and Local Government. Related matters are brought for deliberation to the EXCO members. In the case of Penang Island Municipal Council, the EXCO involved is the Local Authority and Traffic Standing Committee.

There are 147 Local Authorities in Malaysia. Each of them has a different set of by-laws that suits the local scenario.

Although each of the Local Authority has a different set of laws, all by-laws created must be based under the main law i.e. Local Government Act 1976 and approved by the State Government.

If the state EXCO member agrees with the policy or policies passed down by the Ministry of Housing and Local Government, it will then be directed to the Local Authority involved for it to be executed.

2.3 The Third Tier Government: The Local Authority.

The Local Authority upon receiving the policy or policies will have to execute it. There is not much room for deliberation or discussion at the Local Authority level. Sometimes these situations create a non-conducive relationship between the State Government and the Local Authority. Basically, the Local Authority has to carry out whatever policies they are given. Normally policies or issues forwarded by the Ministry of Housing and Local Government will then be deliberated at the Council level. As far as solid waste matters are concerned, the matters will be brought forward to the Cleansing Health and Public Education Standing Committee. As mentioned earlier, the standing committee can deliberate the matter but most of the time it carries little weight.

3.0 LAW AND POLICIES

Currently there is a national policy on solid waste management which is governed by the recently passed SOLID WASTE & PUBLIC CLEANSING ACT, 2007 and the SOLID WASTE AND PUBLIC CLEANSING MANAGEMENT CORPORATION ACT 2007. Detailed regulations following these Acts have been formulated but are awaiting implementation.

Most of the NGOs and environmental activists opined that public input should have been considered before drafting the Act.

The recently passed Act will incorporate an integrated solid waste management system that covers the activities of collection to disposal of waste in a more systematic and standardized manner.

The Federal Government intends to privatize the solid waste management for West Malaysia under the national privatization programme.



Under the Act, the country will be sectionalized into 3 zones - the Northern, Central and Southern Zone. Currently the Central and Southern Zones are already being privatized and operational. The Northern Zone will include 3 more states under the national privatization programme.

Among the reasons the Federal Government decided to privatize solid waste management is to curb irregular practices by the local councils. It is also meant to solve the critical problem of manpower shortages faced by most councils in the country due to the government policy to downsize the public services sector.

Most of the local councils in the country do have a sanitary landfill. It is hoped that the integration of solid waste management with local council functions through the privatization programme will solve the waste management problems in the long run.

The present laws which most of the Local Authorities in Malaysia are applying on solid waste management are:

- LOCAL GOVERNMENT ACT 1976 (National Law)
- STREET DRAINAGE AND BUILDING ACT 1974 (National Law)
- PUBLIC CLEANSING AND SAFETY BY-LAWS 1980 (Applicable to Penang Island Municipal Council)
- SOLID WASTE & PUBLIC CLEANSING ACT, 2007
- SOLID WASTE AND PUBLIC CLEANSING MANAGEMENT CORPORATION BILL 2007

Note that it was mentioned earlier that each Local Authority has its own set of by-laws. Some of the by-laws may be identical, as Local Councils duplicate each other's laws where applicable. Some laws may be modified to suit local needs and circumstances. Most of the time, the smaller Local Authorities tend to replicate the laws enacted by the bigger Local Authorities.

By-laws are essential to the Local Authorities as they provide more enforcement powers. Most of the national acts empower the Local Authority to take legal matters to court whereas by-laws provide power to compound offenders. The acts have compound provisions but this is only applicable to certain offences. Therefore, the Local Government Act provides a clause to enable the Local Authority to create its own by-laws.

Most Local Authorities in Malaysia prefer to compound the offender as it is fast and effective. Legal matters taken to court take time, sometimes up to several years to be settled due to the large number of other unrelated cases.

Several Local Authorities have created their own court i.e. the Municipal Court to settle all the municipal cases without involving non-municipal cases. The Federal Government encourages Local Authorities to set up their own Municipal Courts.

Even though the encouragement is well received by some Local Authorities, many do not set up their own court due to the shortage of magistrates, staff, land, space and funds. Other deterrent factors, such as the clause that the Magistrate appointed must be from the Federal Government but remunerated by the Local Authority have to be considered. Furthermore, the proceeds of fines imposed upon the offender will go to Federal Government coffers.



4.0 PEWOG – A SMART PARTNERSHIP BETWEEN LOCAL GOVERNMENT, THE PRIVATE SECTOR & THE COMMUNITY

The Penang Environment Working Group (PEWOG) is a consultative, planning and coordinating environmental body set up by the State Local Government Committee of Penang, Malaysia.

PEWOG is a working group set up by the Penang Local Government Consultative Forum when the Forum was formed in the year 2000 by Y.B. Dato' Dr. Teng Hock Nan, State Executive Council Member and Chairman of the Local Government, Environment and Traffic Management Committee, State Government of Penang.

(The Committee was renamed the Local Government, Traffic Management, Information and Community Relations Committee after the country's General Elections in March 2004).

4.1 PEWOG's Vision

To be a contributing and internationally recognized environmental body.

4.2 PEWOG's Mission

To assist the Penang State Government and the Malaysian Federal Government to achieve a clean and safe living environment for the people of Penang and Malaysia.

4.3 Objective

To be a clearing house for environmental issues in the State of Penang, particularly in local government, environment, agriculture and eco-tourism.

4.4 Working mode

The working mode is based on a consultative and cooperative tripartite (LA21) forum for the community, government and private sector to work together on environmental matters concerning Penang, Malaysia and the World. PEWOG's projects are funded partially by the Penang State Government with contributions from the private sector and supported by volunteer efforts from its members. The Chairmanship is headed by Dato Dr Ong Hean Tee who is also currently the State Recycling Programme Coordinator. **§ Khor Hung Teik**

Part 2 of this article is scheduled to appear in the November 2008 issue of the Penang Economic Monthly, and will highlight the functions and contributions of PEWOG to the on-going recycling efforts in Penang.

PEOPLE-FRIENDLY BUDGET: WHAT DOES IT MEAN ?

Introduction

Oil price hikes, inflation and easing the burdens of the people. These are the kinds of statements that make out the rhetoric about livelihoods around us today. Thus, when the finance minister went to parliament on 29 August 2008, Malaysians were full of expectations as to how friendly the budget for fiscal year 2009 would be, that might make life better for the average Malaysian. Since May, in fact, car owners have been thronging the post offices across the nation to collect a “handsome” \$625 rebate for each car with two litre engine capacity and below, that the government has decided to pay in lieu of the substantial reduction of petrol subsidies at the pump.



But what is a people friendly budget, from the perspective of the citizenry, on the one hand, and from the perspective of the policy maker on the other? Consider the following argument. The policy maker elects to use subsidies to help reduce the cost of doing business. Lower business costs bring two immediate positive impacts: lower prices help to reduce the burden on consumers while at the same time stimulating investments and employment that in turn increases income opportunities. Thus, subsidies must be good and be used often as a policy instrument. Subsidies appear to make sense, but usually only until we begin to examine the budget implications. Subsidies cost money and the budget can “technically” come only from raising tax revenues. So if both business and taxpayers are asked to pay additional taxes so that the money can be returned to them as subsidies, then the benefit of the subsidy is actually circuitous since taxes would have raised business costs right from the beginning.

This paper will attempt to offer an interpretation of the term people friendly budget with the purpose of using such an interpretation as a gauge to assess whether the proposed 2009 budget might indeed be seen as people friendly or otherwise.

The public voting theory for government spending (i.e. the budget)¹

An economy at its early stages (stage 1) of development (Malaysia during colonial times, for example) is likely to be made up of only rich and poor people with only a small or non-existent middle class. The rich pay taxes and the poor enjoy publicly provided services such as government hospitals and government schools that are of not very good standard because of the limited budget. The rich do make use of these public services extensively because they can purchase better quality health care and education privately.

In the intermediate stage (stage 2) of development, such as Malaysia in the post-independence era, the numbers in the middle class begin to grow substantially because of opportunities in education and wider access to professional positions. The rich continue to pay taxes and the poor continue to enjoy government services like before. The question now focuses on how the middle class would vote (through their elected representatives in parliament) on the budget? One might argue that since the middle class now have monies to spend on themselves, they would not want to see a substantial portion of their resources taken away in the form of taxes. It is plausible therefore, that the middle class would vote for a small budget, limited government spending and the lowest possible tax rates.

¹Based on analysis by Besley and Coate (1991) “Public provision of private goods and the redistribution of income.” *American Economic Review* ; Bos, D. (1980) “The democratic decision on free versus taxes” *Kyklos*

A people friendly budget then might be interpreted as the poor voting for the highest possible budget for the highest quality public services possible (for which, being poor they would not be asked to pay taxes), the middle class voting for the smallest budget possible so that they would not face a substantial tax burden and for the rich, voting to pay as little tax as possible but not a tax rate that is below a level that would lead to social unrest among the poor (manifestations of crime induced by poverty), which will happen if the government fails in its public delivery role.

What happens then when the economy moves into its advanced stage (stage 3)? The size of the middle class now forms the majority of the population. Pockets of poverty remain but because of the relatively small numbers, it is not too much of a public budget problem to attend to the poor. By this time, the middle class have bought and now own a wide variety of consumer goods, such as homes, household appliances and other implements of material comfort. The only drawback is not all types of goods are consumer goods in the traditional sense. These include good quality television programmes (satellite TV), public parks, environmental protection, good quality highways, bridges that can reduce travelling distance, tennis courts, swimming pools, good quality public schools, good quality health care, a well equipped police force that can reduce crime, rescue services for readiness in the event of emergencies and trauma centers. These are “lumpy” goods that are not easily broken down into individual units which can be sold on a per-piece basis like consumer goods. They also require substantial capital outlays and can only be made available if they are voted for through the public budget.

The point is, at some stage, the middle class would change their minds and switch from voting for a small budget to voting for a large public budget. Doing so, they move from a small tax exposure to a substantially increased level of tax. The tax paying attitude has also changed. In the past tax monies are to help somebody else. Now, on the other hand, taxes are seen as more of a “club- subscription” that enables monies to be collectively pooled so that the critical common goods can be supplied.

What is the size of Malaysia’s public budget?

We can safely say that Malaysia has a quarter of the gross national product government, that is the public budget necessary to meet operating expenses and the development efforts of the government in Malaysia will require one-quarter of the GNP. In 1967, Malaysia’s public budget was 25% of the GNP. The budget expanded steadily to peak at 48% in 1981 but has since fallen back steadily to the 25% mark by 1994.² The 2008 budget is 25.4% of the GNP. The proposed 2009 budget is set at 26% of the GNP. If one is guessing whether as an economy grows further, will government become bigger or smaller, the answer is governments are big players for which “over half of the income created can be diverted to the public sector by taxes.”³ This affirms how the middle class is voting, first limiting the size of government but eventually allowing government to expand the scope of its activities as more of the national income is channeled towards the public budget.

²Ragayah Haji Mat Zin (1997) discussant’s report in Sulaiman Mahbob (ed.) *Malaysia’s Public Sector in the Twenty First Century*, Queen’s University, Canada and Malaysian Institute of Economic Research, Kuala Lumpur

³Robin Broadway (1997) “Preparing the public sector for 2020: lessons from industrialized countries.” In in Sulaiman Mahbob (ed.), *Ibid.* p.9

The scope of public spending

A people friendly budget is one that reflects the social choice of the people – one that is voted for, through parliamentary representatives elected into office. In advanced economies, the middle class form the majority of the people and hence, the size and therefore scope of public spending will be based on the voting choice of the middle class.

A more comprehensive scope of government spending comes with a large price tag by way of more tax dollars. So when the budget is being announced, the poor look with anticipation at how the government might be able to make life better for them through more comprehensive spending. This is largely their perception of a people friendly budget. On the other hand, the rich also listen with anticipation, but for them it is how much more taxes they have to pay in order for government to do what it plans to do. The rich would rather pay less tax but they realize that paying higher taxes can actually be more beneficial. When there are many poor people amidst economic hardships, crime rates go on a rise. Outbreaks of diseases are more frequent (and resulting epidemics rarely discriminate among the social classes). Low levels of education result in only a low quality workforce that limits the scope of investments. Thus if government, through a larger public budget, can provide a higher quality public delivery system to meet the social needs of the masses in the areas of income opportunities, health care and education, then many kinds of social ills can be overcome. If tax monies can do this, the rich will be willing to pay it via being subject to higher taxation rates.



Club-goods and the middle class question

Whether the government becomes larger or smaller is often a middle class question. The middle class is less dependent on the government compared to the poor for their livelihoods and hence can do fine with small governments. Small governments come with less tax commitments. But the middle class tend to have an insatiable appetite for material comforts, if not for the limits placed by their middle class incomes. However, not everything can be bought on a per unit basis and hence when middle class incomes become larger as the economy grows, the middle class will begin to long for what is referred to as club goods.

Public services can be generally seen as club goods that cannot be individually bought but are paid for through the pooling of funds. Going to space is an extreme example of a club good. It is expensive and it is not consumed individually on a per piece basis. But if society collectively feels that space is a frontier worth discovering, then citizens can pool their finances to fund space exploration. Helicopter rescue services and trauma centers are another example of a club good. Without one, serious accidents at a remote location would have a high likelihood of being fatal because of the time it takes to rescue the victim and for medical attention to be given.

The middle class question is one in which the middle class decides from his or her total income, the varying proportions to be spent on individual goods versus the collective consumption of club goods. Thus, listening out for a people friendly budget is not necessarily asking for tax-breaks per se but on the contrary, wishing for a greater scope of government spending on club goods even if this might mean more taxes. The issue is one of expenditure choice between consumption of individual goods and collective club goods.

Good and credible governments

All this talk is, of course, essentially academic. In real life, things do not come down to voting theory and how things work out once choices are made and exercised by way of pooling together tax dollars.

The size of the public budget, whether one quarter of the GNP or as much as half as suggested by what is seen among advanced economies, is not the question of the proportioning of middle class expenditure between individual and collective goods but instead revolves around government credibility. Sales can only be made when the vendor is credible lest we end up with a gizmo that either does not work or breaks apart soon after the purchase is made. It is the same with the public budget and the government. Tax monies can be utilized to send mankind to space or find the cure for diseases like cancer and AIDS. But the experience of bad governments siphoning off from the public coffers into the pockets of politicians and government officials seen many times all over the world for many decades will not allow the public sector to properly expand both in size as well as scope. Bad governments do not mean that individual folks will not progress – only that the collective society will not progress properly. In many societies that experience this, the well-to-do have to live cloistered behind high security walls built not only to keep out potential thieves and robbers but also to shut out the ugliness in the poverty and oppression of the shanty-towns outside their affluent neighbourhood.

One begins to wonder then, where is Malaysia heading? The size of its middle class has expanded from a point when it was virtually non-existent during colonial times. Yet the public budget has remained at the level it was back in 1967. Now, we begin to see colourful brochures of the so-called gated communities used by property developers to woo the newly rich middle class folks with promises of greater security.

Gated communities

We must now ask the question whether the gated communities marketed by property developers in Malaysia is a sign of government failure, or perhaps related to the government budget remaining at the 25% of GNP mark for forty years. The concept of “gating” in which residents live inside a fence and the only access is through a 24-hour guarded gate used to be one of the main distinguishing features between flats and condominiums. This difference in feature appeared because when developers sold condominium units, they offered the potential resident “club” facilities such as swimming pools, gyms, tennis courts, children’s playground and landscaped gardens. “Gating” shuts out non-residents from access to these facilities, and thus gives some degree of “exclusivity” to the resident users. For the maintenance of the facilities, residents pay a monthly maintenance fee (like a club subscription) based on the floor area of the condo apartment they own.

Before condos came into existence, flats tended to be public housing projects and hence the common facilities are publicly maintained by the local government and funded by property rates. No additional maintenance fees are collected. The issue is actually not whether communities are gated or non-gated so that access to facilities are private, on the one hand, or public on the other, but the issue is whether one regards government to have failed or succeeded in providing public services. Gating merely means “privatized” delivery of public (club) services, not necessarily only recreational facilities but also security services where private security guards patrol the grounds aided by closed circuit camera systems instead of police constables on the beat.

Before long, property developers began to market landed properties as gated communities as well, much along the lines of condos on landscaped grounds inside a walled community, except that these were individual houses rather tower blocks. Gated communities have not only sprung up all over the Klang Valley but have also appeared rapidly in Penang as well. The concern is the question of whether Kuala Lumpur and Penang are becoming like Manila where the rich and poor are separated by high walls. Technically, current legislations do not allow gated communities for landed properties.⁴

⁴See “An end to gated communities in Malaysia?” *Property Malaysia* January 17 2006, <http://propertymalaysia.blogspot.com/2006/01/17/an-end-to-gated-communities-in-malaysia/>

Owners of landed properties hold individual land titles for the property they own. Any land outside the plot of the land they own regardless of whether it is roads, drains, public parks, sewer systems, rubbish dumps and pipelines has to be surrendered to the government even though these civil-engineering systems were put there by the property developer when the housing project was built. This is a legal requirement. Once these facilities come under the control of the government, they are maintained accordingly from a variety of fees property owners pay: rates to the local government, i.e., MPPP or MPSP, quit rent on the land title to the state government, sewer bills to Indah Water, electricity bills to Tenaga and water bills to the Pihak Berkuasa Air (PBA). This then means that the property developer cannot legally charge a monthly maintenance fee to landed property owners.

Condos, on the other hand, do not have individual land titles but property owners are instead issued with strata-titles for the unit they purchased but the title for the land on which the condo block sits on, still belongs to the property developer. Since many of the facilities found inside the condo is owned by the developer, or in many cases the condo-management company, for which access is given to residents of condo units, including foyers, corridors, stairwells and elevators, monthly maintenance fees are charged to the users. The difference between proper land titles and strata-titles is that with land titles all common facilities will end up surrendered to state ownership and control whereas with strata-tiles there are many common facilities that continue to be privately owned by the property developer or the condominium's management company.



We thus understand that why gated communities are legally possible with condos but not for landed properties are a matter of legal technicalities over land titles and strata-titles. Law becomes at odds with social choice, and ultimately society should decide whether gated communities are desirable; ensuing legislations will adapt to either promote gated communities or to prevent gated communities from being further developed. Social choice is not demonstrated when something is technically legal in one circumstance but illegal in another circumstance. The social choice is whether government provided public facilities and services work better or otherwise, when compared to private delivery of the same facilities and services. In other words, do we pay more taxes so that the government can do a better job providing public facilities and services or would we rather pay less tax and pay additional “private” fees, say to a property management company, for the same facilities?

Conclusion: the tragedy of the commons can be overcome

Gated communities are aimed to shut out “undesirables”. Those living inside would politely say “it is the high crime rate around us, you see” but those outside may perceive it as “they (the rich) just don’t want to see lower-class people about”. But individual dispositions aside and arguing purely based on aggregates of people in general, “gating” enables the division between government supply and private supply of “public or club” facilities and services. The merit of “gating” then becomes a question of how well we, the society, can manage and supply common facilities and services. If we can, then there is really no need for private sector participation in the supply of public services.

Aristotle once said that “for which is common to the greatest number has the least care bestowed upon it.”⁵ The example that describes the tragedy of the commons given by both Garret Hardin and William Foster Lloyd tells of why a herdsman would want to add an additional animal to his herd for the benefit it brings to him privately, discounting the cost of impending overgrazing of the pasture which is a common cost to everyone.⁶

⁵Aristotle (384 B.C.-322 B.C.), *Politics*, Book II, Chapter III, 1261b; translated by Benjamin Jowett (1855) *The Politics of Aristotle: Translated into English with Introduction, Marginal Analysis, Essays, Notes and Indices* Oxford: Clarendon Press, 1885, Vol. 1 of 2.

⁶Garrett Hardin (1968), “The Tragedy of the Commons”, *Science*, 162:3859, pp.1243-1248
William Forster Lloyd (1833), *Two Lectures on the Checks to Population*, Oxford, England: Oxford University Press.

The issue has to do with the “public” nature of ‘lumpy’ goods that cannot be used on a per-piece basis. Such goods are then left for provision and management by the government, which appears to doom these resources and services to tragic abuse by individual users at the cost to everyone. Seen in this way, it looks like the government is more likely to fail than to succeed in the final analysis.

“Gating” may be the desperate attempt to overcome the consequence of abused common facilities by forming a more exclusive “clientele”; however, to protect fraudulent access by building walls will merely change the complexion of the problem because one cannot live one’s entire life cloistered behind these barriers. However, there is hope that the problems of “free-riding”, yielding to temptations and acting opportunistically, resulting in tragic abuse of common resources can be overcome by focusing on the development of joint benefits. Elinor Ostrom⁷ in the study of earnings from common property examples such as Swiss grazing pastures, Japanese forests and irrigation systems in Spain and the Philippines, demonstrates the positive effects of setting aside the assumption that people can only act individually without concern for others. These examples show that the move towards institutionalized and interdependent collective actions led to the development of mutual trust and cooperation, communication, binding agreements as well as effective monitoring and enforcement mechanisms, resulting in a beneficial management of the commons without tragic consequences.

The reading of the public sector budget in September of each year in Malaysia is thus not really about what the government says it will do, with the people commenting in response on whether they think that the budget is people friendly or otherwise. We so often forget that without people, there can be no government. Government is more than an institution that dictates policy and demands compliance. Instead, the construction of government should be the collective manifestations of our individual selves, a permanent institution that allows all in a society to act collectively, communicating and cooperating so that things truly public remain accessible to the public for the continuing benefit of all.

§ Dr Chan Huan Chiang

⁷Elinor Ostrom (1990) *Governing the Commons: The Evolution of Institutions for Collective Action* Cambridge University Press.



International Headlines

China's economy sputters

Source: Excerpt of article by Frederik Balfour in BusinessWeek.com, 2 October 2008

Hundreds of millions of Chinese look forward all year to the "Golden Week" holiday marking the country's Oct. 1 National Day. After the weeklong vacation ends next week, the mood will be decidedly downbeat. As the rest of the world struggles with the financial crisis, China has its fair share of depressing news (BusinessWeek.com, 9/17/08): The property market is tanking, the stock market is off nearly 60%, and there is mounting evidence that China's economic juggernaut is faltering.

The latest sign of a slowdown came with the Oct. 2 release of September figures on the health of China's manufacturing sector. The data, the CLSA China Manufacturers Purchasing Managers Index (PMI), showed the steepest fall in volumes of new orders since the monthly survey began in June 2004; registering 47.7, it was well below the 50 boom/bust cutoff. The PMI declined for the third month in a row, suggesting a trend of falling demand from both domestic and export orders.



European leaders announce huge bank bailouts

Source: Excerpt of article from CNN, 13 October 2008

The leaders of Europe's biggest economies followed Britain's lead Monday and announced huge bailouts for their banking sectors. Sharemarkets in the United States, Europe and Asia recorded big bounces as world leaders revealed how much money they were willing to pump into the ailing bank sector. The Dow Jones opened more than 400 points up after gains of up to 10 percent in Europe and Asia.

Markets were further buoyed when five central banks, including the Federal Reserve, European Central Bank, Bank of England and Swiss National Bank, said they would provide unlimited U.S. dollar funds to financial institutions.

The world's major economic powers have been forced into action after weeks of turmoil on financial markets saw trillions wiped off the value of stocks. Most troubling has been the collapse in confidence and supply of liquidity in major banks burdened by unknown amounts of bad debts related to sub-prime mortgages.

Asean plans package to assist lenders

Source: Excerpt of article by Shamim Adam in Bloomberg, 13 October 2008

Southeast Asian officials and their counterparts from Japan, China and South Korea are studying plans that will allow them to rescue financial institutions facing liquidity problems or holding distressed assets, Philippine Finance Secretary Gary Teves said.

Organizations such as the International Monetary Fund and the World Bank are also joining in the 10-member Association of Southeast Asian Nations' efforts to set up such a facility to help lenders in the region if needed. The World Bank indicated it will pledge about \$10 billion to the plan. Asian policy makers have downplayed concern the U.S. turmoil will infect the region's financial systems and said they see little risk their countries will be hit by a crisis similar to the economic meltdown of 1997.

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