

Bank Negara Report 2007: A Layman's Guide to Numbers about the Economy (Part 1)

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Introduction

On March 26 2008, Bank Negara released its report for 2007, as scheduled, among other things announcing official figures on various aspects of Malaysia's economy. These numbers are watched with anticipation, twice a year: the *Bank Negara Report* in March and the *Economic Report* or *Laporan Ekonomi* which is released in conjunction with the reading of the public budget in parliament by the Finance Minister in September.

People, to whom these numbers are important because of the nature of their work or business, will likely know what each item means for the numbers reported. But more importantly, one should at least have some idea of how the economy works so that one can understand how the different items interconnect and bear upon one another, and as a result begin to have an intuitive feel about what is actually going on with the nation's economy. The purpose of this paper is to give the layman a guide to how the economy works.

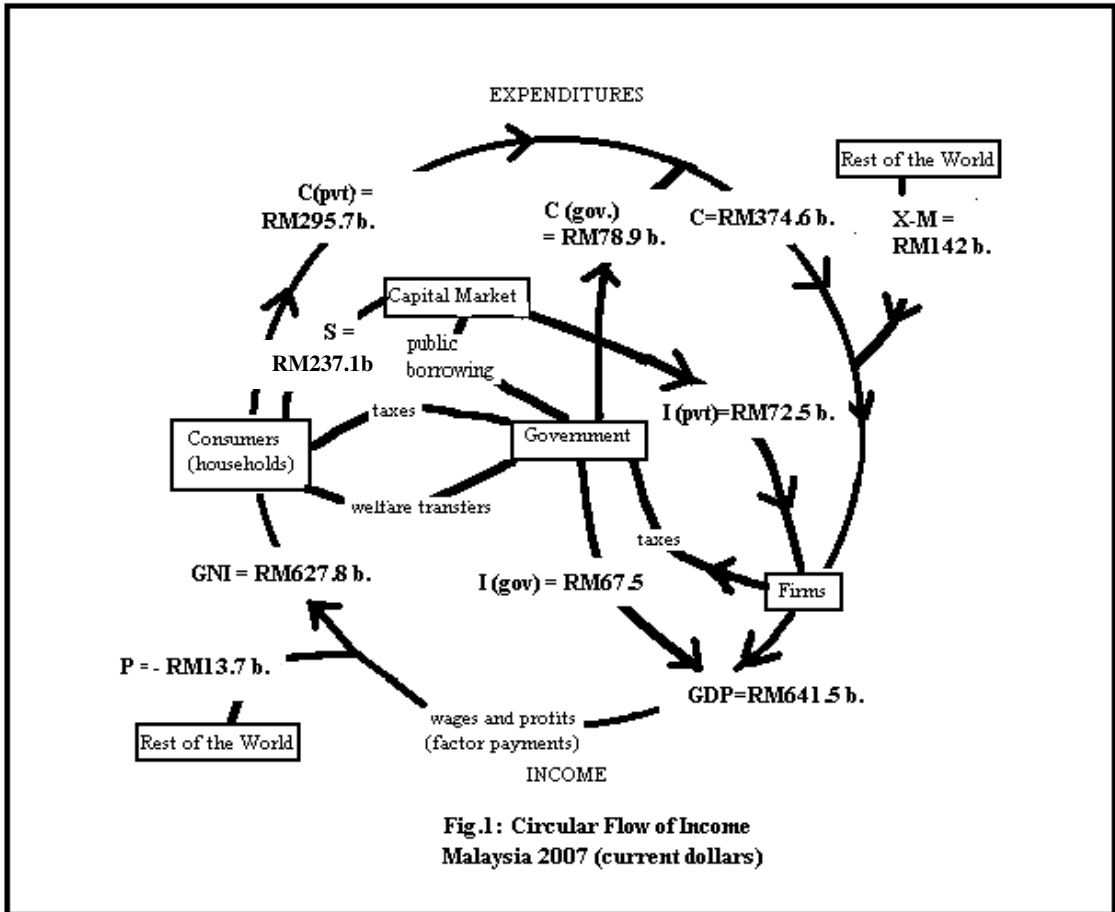
The different parts of the economy

Broadly speaking, the economy is made up of only five components: i) consumers (or households), ii) the government, iii) firms (i.e., business and industry), iv) the capital market, and v) the rest of the world. When we talk about the economy, we are actually referring to how money is being moved among these five components. The movement is not haphazard and random but in fact, money that is channeled among these parts follow proper conduits (or roadways) such that we can actually produce a reasonably accurate sketch showing the workings of the economy as follows.

In Figure 1, the boxes show our five components and the dark lines are the conduits along which money moves (in a clockwise direction) among them. To obtain the numbers about the economy that are officially reported by the government, the national accounts department of the Department of Statistics sets up recording points along the different conduits. In reality, of course, this is not as simple as counting the number of vehicles that pass by on a road or highway. What is done is a wide variety of organizations, like the customs department, commercial banks, various public authorities as well as private business and even individuals are required to report specifics about their activities during which time the necessary numbers are assembled.

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How do the numbers interrelate with one another?

The various numbers that describe Malaysia's economy are presented over several tables in the annex of the *Bank Negara Report*. Examining the numbers on each table offers us a glimpse as to what is going on according to the table tiles: national income by demand aggregates, savings-investment gap, balance-of-payments, etc. A better way, however, is to assemble all the numbers into a single framework so that the interconnections among the various facets of the economy can be simultaneously examined. This framework is called the system of national accounts that has long been established.¹ There are four separate accounts and the identities that make up the debt and credit sides of these accounts are as follows:²

- I. Production account: $GDP+D = C+G+I+(X-M)$
- II. Consumption account: $Y = C+G+S+T$
- III. Accumulation account: $D+S = I+CA$
- IV. Rest of the world (external) account: $T+CA = (X-M)+P$

¹See United Nations (1968), *A System of National Accounts*, Studies in methods, Series F, No.2, United Nations Statistical Office, New York. The 1993 update to this document is also published on the web and is available at <http://unstats.un.org/unsd/sna1993/toctop.asp>

²Readers interested in past analyses of Bank Negara's statistics using the system of national accounts framework can refer to past issues of the *Penang Economic Monthly*, March 2004, April 2005, March 2006 and March 2007.

Many items are common across the different accounts and thus allow integration into the single system of national accounts row and column framework as shown in Table 1. Rows and columns must, of course, add up so that the debit and credit sides are balanced.

Table 1: System of National Accounts, Malaysia 2007 (Preliminary)
(current RM million and % of gross national income)

	I Production	II Con- sumption	III Accumu- lation	IV Rest of the world (External)	TOTAL
I Production		C+G 374,563 (59.7%)	I 139,972 (22.3%)	X-M 129,142 (20.6%)	643,677 (102.5%)
II Consumption	GDP=Y-P 641,498 (102.2%)			P -13,704 (-2.2%)	Y = GNI 627,794 (100%)
III Accumulation	D 2,179 (0.3%)	S 237,129 (37.8%)			239,308 (38.1%)
IV Rest of the world (External)		T 16,102 (2.6%)	CA 99,336 (15.8%)		115,438 (18.4%)
TOTAL	643,677 (102.5%)	627,794 (100%)	239,308 (38.1%)	115,438 (18.4%)	



Notes:

C+G= pvt. and govt. consumption, I= investments, P= net factor payments abroad (negative number indicates net outflows), D= depreciation (positive number indicates stock levels have drawn down), S= national savings, T= net transfers (positive number indicates net transfers going abroad), Y= GNI = gross national income, CA= current account (positive number indicates surplus, implying financial investment capital outflows)

Source:

Developed from numbers in Bank Negara Annual report, 2007, Tables A.4, A.5 and A.9 (Released 26th March, 2008)

To briefly tell the story about Malaysia's economy in 2007, total production (Account I) from all economic activities located in Malaysia amounted to RM641.5 billion in current dollars, this number being called the gross domestic product or GDP. Meanwhile, on the demand side of Account I, consumption (C) plus investment (I) plus net trade (X-M) amounted to RM643.7 billion, implying that total demand exceeded total production which was met by a draw down of stock inventories (D, depreciation) by about RM 2.2 billion.

From the income and consumption perspective (Account II), the total gross national income (Y=GNI) of RM627.8 billion was obtained after the amount of RM13.7 billion of net factor payments (P) had been deducted from the GDP. Factor payments are wages, profits, rent and interest.

The net value is obtained by counting factor payments made to Malaysians involved in economic activities in countries all over the world less factor payments made to non-Malaysians from economic activities located in Malaysia (say wages of expatriates and foreign labourers as well as returns from foreign direct investments). Since the number is negative, Malaysians earned less from economies abroad than foreigners participating in Malaysia's economy in 2007. From this national income, Malaysians (in both the public and private sectors) consumed nearly 60% of it in Malaysia and a net amount of 2.6% or RM16 billion was transferred (T, i.e., not resulting from economic activities) out of Malaysia's borders. This leaves 37.8% of the national income unspent which becomes national savings (S) amounting to RM237.1 billion.

Account III concerns savings and investments. Out of the gross amount of RM239 billion saved (i.e., RM237.1 billion net savings plus RM2.2 billion depreciation), gross investments (I) made within the nation's borders amounted only to RM140 billion (inclusive of depreciation). When investments surpass savings (i.e., investing with money that one does not have) there is a resource gap. In the case of Malaysia, there is a surplus instead of a gap because investments fell short of savings. The surplus shows up as a current account (CA) surplus of $239 - 140 = \text{RM}99$ billion or 15.8% of gross national income.

The current account, which is technically defined as the difference between savings and investments³ can also be detected in the rest of the world or external account (Account IV). The trade surplus for goods and services was RM129.1 billion. Take away RM13.7 billion as net factor payments abroad and another RM16.1 billion as net transfers abroad, and we are left with the current account of RM99.3 billion.

However, the framework also tells us that Malaysia is under-investing domestically. By definition, the current account has to be near zero but not in the negative value range so that savings and investments are as closely matched as they can be. If there is a surplus, as is the case for Malaysia (by as much as 15.8% of gross income), it means that Malaysia has to increase investment abroad. Foreign investment by Malaysia will be discussed in greater detail later in the article.

Finally, net factor payments abroad were also a modest 2.2% of gross income. This is the difference between domestic production and national income, (or the difference between incomes accruing to non-nationals involved in economic activities in Malaysia and incomes of Malaysians involved in economies abroad). The long term issue with net factor payments is that increasing foreign direct investments in Malaysia also implies increasing factor payments to foreign economic interests in Malaysia that would result in widening the gap between gross production and gross income. To balance and circumvent this, Malaysia must also increase its foreign direct investment (outward investment) in economies abroad, and this has been happening over the years.

³In a closed economy, savings must equal investments. In an open economy, on the other hand, the difference is recorded as the current account surplus or deficit. A surplus will imply capital flowing out, i.e., the surplus being invested abroad. A current account deficit implies capital inflows to meet the shortfall between investments and savings.

Economic performance

Figure 1 is like a spinning wheel. The top portion is the expenditures showing how money has left the pockets of members of households, as money is paid when making purchases. It becomes income as money eventually flows back into the pockets of household members at the bottom portion of Figure 1. Money flows in a clockwise direction and the flow never stops. The rate of flow does, however, change from time to time. When the economy is buoyant, the “spinning”, if you can imagine seeing money gushing round and round along the conduits on Figure 1, is quite fast. But when the economy slows down, then the spinning also loses momentum and money flow becomes lethargic. The official numbers reported relate to the total amount of money that flowed by the various recording points from January 1 through December 31. When the flows are rapid, more money gets recorded in one year. This remark is important, because economic numbers are actually part of a never ending flow and therefore they have to be seen as some sort of cumulative rate. For this reason, although monthly or quarterly performance numbers are often announced, most often economic numbers are reported as the total being recorded over the course of one year.



Malaysia's economic performance in 2007

The expenditure side (demand component) numbers are obtained from Table A.4 (*Gross National Income by Demand Aggregates*) in the annex of the *Bank Negara Report 2007* and put into Figure 1 above. We will repeat the numbers discussed above but this time with reference to Figure 1 with respect to the various components of the economy. Total consumption, C, that flowed out from households was RM295,686 million current dollars (i.e. not adjusted for inflation). Meanwhile, government spending, G (not counting investments) totaled RM78,878 million. Malaysians (households and firms and on both consumption as well as factory machineries) spent less on imports, M, than it earned from exports, X, making a trade surplus, X-M (for both goods and services) of RM129,142 million. The amount of investments, I, from private and government sources were RM72,471 million and RM67,501 million respectively. Thus C+G+I+(X-M) added up to RM643,677 million, which is the total expenditure spent across Malaysia's economy in 2007.

This would have been the total income if not for the fact that the amount of –RM2,179 was recorded as *change in stock*. What this means is that some portion of the above expenditure made in 2007 was not on items produced in 2007. Thus, there were no 2007 earnings from such expenditures. Instead, the expenditures were of past inventories (or stocks). Depreciation and statistical discrepancies are also conveniently lumped in here somewhere. As a result, Malaysia's official gross domestic product or GDP number (preliminary) for 2007 was RM 643,677 million minus RM2,179 million, amounting to RM641.5 billion.

At this point it becomes necessary to sort out the difference between production output (the GDP) and income. Additional numbers found on Table A.9 (*Balance of Payments*) are referred to. The GDP reflects the value added (revenues less input costs at each stage of production) from all economic activities occurring on the nation's soil. However, since a portion of such economic activities are carried out by foreign subjects in Malaysia, the *factor incomes* (i.e., wages, profits, interests and rent) from those “foreign owned” activities, an amount of RM52,498 million, has to be subtracted from the GDP.

At the same time, Malaysians are similarly earning wages, profits, interests and rent from economies all over the world, amounting to RM38,794 million. Between these, we can see there is a net loss of RM13.7 billion, P, in Figure 1, because Malaysians earned less from economies abroad than foreigners participating in Malaysia's economy in 2007. Essentially, therefore, Malaysia's national income is RM641.5 billion less RM13.7 billion, which is RM627.8 billion.⁴

One quickly realizes that Malaysians do not spend a fair portion of the total national income but instead, from figures obtained in Table A.5 (*Savings-Investment Gap*) the amount of RM237,129 million (constituting 37.8% of the GNI) ended up as gross national savings or S, as seen in Figure 1. **§ Dr Chan Huan Chiang**



*Part 2 of **Bank Negara Report 2007: A Layman's Guide to Numbers about the Economy** will be published in the May 2008 issue of the Penang Economic Monthly. In Part 2 of the article, the writer will address the topic of monetary and fiscal policy as a tool of governmental and economic intervention.*

⁴In the *Bank Negara Report*, this figure of RM627.8 billion is called the gross national income or GNI. In the past, GDP less net factor payments abroad is called the gross national product or GNP. Technically, GNI is GNP minus indirect business taxes but according to the *Glossary of the System of National Accounts 1993*, United Nations, New York, paragraphs 2.181 and 7.16, gross national income (GNI) is "GDP less net taxes on production and imports, less compensation of employees and property income payable to the rest of the world plus the corresponding items receivable from the rest of the world (in other words, GDP less primary incomes payable to non-resident units plus primary incomes receivable from non-resident units). An alternative approach to measuring GNI at market prices is as the aggregate value of the balances of gross primary incomes for all sectors; (note that gross national income is identical to gross national product (GNP) as previously used in national accounts)". Essentially, by adopting the term GNI, Bank Negara is complying with the system of national accounts procedures as laid down by the United Nations that has, in practice, done away with the term gross national product or GNP.

Town Planning and Quality of Life

Introduction

Town planning is very important in Malaysia. Large sums of money have been spent for the preparation of development plans. Anyone interested to undertake land development has to obtain permission from the local planning authority, which is the agency in charge. Yet, it is fair to say that the quality of life in the urban areas in Malaysia is not as good as expected. None of the towns and cities in Malaysia has yet to be acclaimed as an internationally recognised “Livable City”, such as Toronto, Melbourne, Zurich, Kyoto and even Singapore.

The objective of this paper is to provide a brief discussion on the state of urban Malaysia, factors for such state of affairs and what needs to be done to bring about a better quality of urban life. In the process, a brief note on the rationale of town planning is given.



Raison d’etre

Town planning is not the product of idle minds. It is a practice to ensure that human settlements, especially those teeming with people, are not only habitable, but also centres of trade, education, culture, religions and advancement of human societies.

Town planning in Malaysia can be traced back to England in the 19th century when the cities were undergoing rapid urbanization as a result of the Industrial Revolution. The cities were not prepared for the massive influx of people. As a result, the living conditions of many people, especially poor migrants from the rural areas, were terrible. Vivid descriptions of the living conditions can be seen in the writings of Charles Dickens, such as *Oliver Twist* and *Great Expectations*.

In response to growing criticisms of unsanitary and over-crowded living conditions, the city councils began to enact laws to regulate public health and housing. As the same time, industrialists, popularly described as “Industrial Philanthropists” began to build new settlements outside the cities, such as Lever Brother’s village of Port Sunlight and Cadbury’s village of Bournville. These early experiments in spatial arrangement of the built-up environment to foster better living conditions became examples of what proper urban planning could accomplish.

These attracted writers to put forward their views on developing better human settlements. Among them was Ebenezer Howard’s *Tomorrow – a Peaceful Path to Real Reform*, published in 1898. In his book, he advocated the development of a “garden city” to improve the deplorable living conditions of the vast number of people streaming into the already over-crowded cities. He republished the book as *Garden Cities of Tomorrow* in 1902.

Howard’s book led to the formation of a Garden City Association in 1899 and this was subsequently changed to Garden Cities and Town Planning Association in 1907. A noted historian, Gordon Cherry (1974) believed that this was the first time ‘town planning’ was mentioned.

Town planning has evolved over more than a hundred years from a series of coloured maps showing land use into written statements, maps, charts and diagrams aimed at making the urban areas more suitable for human societies.

However, the objective of town planning has remained basically the same, that is, to enhance the quality of life for people in urban habitations.

As Malaya was at that time made up of a mixture of British Protectorates and colonies, it was inevitable that the ideas of town planning were gradually introduced in the Peninsular states.

Town planning officially began with the appointment of Charles C. Reade as the town planning advisor to the Government of the Federal Malay States in 1921. In Reade, Malaya could not have found a man more committed to town planning, especially in the tradition of the Garden Cities and Town Planning Association of England. He was more than just a practising town planner. He was a crusader of town planning. Reade, whose position was changed to Government Town Planner, served until 1930. (Those interested in a more detailed writing of the import of town planning into Malaysia should refer to *Urban Planning in Malaysia*, published in 1991).



Urban Planning Today

Almost right from the beginning of Malayan town planning in the early 1920s, the practice was instituted as a legal exercise. Today, after several changes of the acts of parliament, town planning is carried out under the powers of the Town and Country Planning Act of 1976.

The local authorities are the local planning authorities. In carrying out their duties, they have to abide by the development policies of the respective State Planning Committees. Examples of such policies are in the Structure Plans. On their part, the local authorities have to prepare Local Plans, which are basically in the form of maps with explanations, diagrams and charts.

There is a Town Planners Act to regulate the activities of town planners. This means that only those who are members of the Malaysian Institute of Planners and registered with the professional board are allowed to designate themselves as town planners and provide consultancy services. Today, hundreds of Malaysians are qualified town planners, some with PhDs from notable universities. Many have furthered their knowledge by attending seminars and conferences all over the world.

The machinery to implement town planning is also well developed. There is not only a well-staffed town planning department in the federal government, but also in every state in Malaysia. All the major local authorities in the country also have a town planning department. Hundreds of millions of ringgit have been spent on the preparation of Structure Plans and Local Plans. Furthermore, private real estate developers have spent millions engaging town planners to prepare layout plans and town planning reports when they applied for planning permission from the local authorities.

Quality of Urban Life

On the whole, urban areas in Malaysia are somewhat conducive for work and bringing up families. Many rural poor and those from smaller towns, including many from neighbouring countries, continue to flock to the bigger towns and cities in Malaysia. The urban centres are rather efficient theatres for administration, commerce and industry and are attractive to foreign capital and expertise.

For example, Kuala Lumpur has attracted favourable comments from visitors. Those visiting the new administrative capital, Putrajaya, cannot but be amazed by its buildings, bridges, highways and parks. Furthermore, there are enclaves, such as Bangsar, that provide interesting places to have a life after work. Apart from the Bukit Tunku area, there are also middle-class residential areas, such as Taman Tun Ismail, that are pleasant and conducive for bringing up families.

On the other hand, it is also fair to say that in view of Malaysia's economic development and the long history of town planning, the quality of life in many urban areas could have been better. Many major towns and cities, including Kuala Lumpur, suffer from frequent flash floods. There is a shortage of 'green lungs' like parks and recreational facilities. Traffic jams are almost taken for granted as an inevitable feature of urban living. Apart from Kuala Lumpur, the state of public transportation in urban Malaysia is sadly inadequate. Almost all the towns and cities do not have adequate facilities for pedestrians. There is a serious lack of facilities to cater to the mobility of the aged, physically handicapped and mothers with young children.

Furthermore, there is haphazardness, both in the city centres and the urban fringes, largely as a result of incompatible land use. In the context of livable cities, there is the lack of conducive public avenues to facilitate and encourage urban dwellers to gather, meet and interact. In fact, there has been a growing fear of crimes in the cities. This has manifested in the growing popularity of gated communities, the antithesis of livable cities. Even those living in ordinary suburban areas are organizing themselves to turn their areas into "guarded communities". Some even build illegal obstacles across public roads, while the local authorities appear to turn a blind eye to such acts.

Here, it may be useful to provide a very brief note of what is expected of livable cities. They are people-centred human settlements with emphasis on strengthening the community. They have attractive and safe public realms such as well-maintained parks, squares and marketplaces. The built-up environment has human scale architecture and a mixed land-use of shops, houses, outdoor cafes, restaurants and spaces for community festivals to facilitate and promote interactions and civic engagement.

Livable cities are also characterized by short traveling distances for daily needs that are met by walking, cycling and use of mass transit transportation, including public buses. The use of private cars voluntarily gets a low priority.

Above all, livable cities are safe cities.

The main reason for many urban problems noted above is poor urban management. Despite the existence of local authorities, some of which are endowed with annual budgets in hundreds of millions of ringgit, the management of the urban areas under their purview leaves much to be desired. A detailed discussion of the factors related to poor management will have to wait for another day. To state that ineffective management of the towns and cities is one of the major complaints of the people should suffice to drive home the main point.

The failure of effective town planning is an important reason influencing the relatively poor quality of urban life in Malaysia.



A major factor of the failure of town planning is the lack of development plans, particularly Local Plans, to regulate land development. More than 40 years after the enactment of the Town and Country Planning Act which calls for the preparation of Structure Plans and Local Plans to regulate the development of the urban areas, a large part of towns and cities are still not covered by gazetted Local Plans.

There are, of course, Structure Plans. But these are broad-based policy plans. While they are useful to provide the overall policy directions, they are useless without the Local Plans which are official documents that provide in detail what can be built on each and every piece of land. The detailed land-use and intensity of use maps are augmented by written words and diagrams on the future development of an area. Yet these very important documents are not available. For instance, Penang has only one gazetted Local Plan and this covers only Penang Hill and its immediate vicinity.

Actually, many Local Plans have been prepared but unfortunately, not many are gazetted. They are kept hidden and only used as guides. This is indeed not a good practice. It is in fact counter-productive as such plans can be misused by giving the run-around to those who want to apply for planning permission.

Although the quality of Malaysian town planners can be as good or as bad as those of most other countries, including those in developed countries, the system of appointment of town planners to prepare development plans needs to be improved. There should be open tenders for all government jobs, such as in the preparation of Structure Plans and Local Plans or specific development plans.

Furthermore, despite the Town Planners Act requiring only “qualified” town planners to prepare layout plans and town planning reports in applications for planning permissions, there is no accountability. So far, no town planners have been asked to explain when development projects encounter problems like floods, traffic congestion and the lack of recreational facilities that cause problems to the surrounding areas.

The most serious cause of the failures of town planning is non-compliance with the approved plans (see *Goh Ban Lee, 2002*). In many newly established housing areas, it is common to see major renovations and extensions as soon as the local authorities issue certificates of fitness for occupation (OCs). For example, setbacks are basically just ignored. In many cases, car-porches are extended to a point where they destroy the uniformity and harmony of a row of houses. Some detached houses have been extended in a manner that makes all the neighbouring houses look like ‘lean-tos’.

Even worse, in many areas, residential houses are converted into shops, clinics and commercial spaces. In some cases, there are even motor-repair shops and small-scale industries mushrooming in these residential zones. This is the result of the overall Malaysian malaise of non-compliance, an ugly aspect of what Prime Minister Datuk Seri Abdullah Ahmad Badawi termed as a “Third World Mentality”. But there is no doubt that poor planning contributes to this malaise.

Finally, it should be noted that town planning is still an evolving occupation. Indeed, it is still very much a practice in search of a theory. There is too little discussion and debates on the system, practice and even philosophy of town planning in Malaysia. Making matters worse, despite the progress of the social sciences in Malaysia in the last 40 years or so, there is still a lack of understanding of Malaysian urban society among the town planners. More specifically, there is still little understanding about the differential access of people to job opportunities and the “good things in life” such as comfortable housing, recreational facilities and health services.

What Can Be Done?

There is a serious need to improve the management of urban Malaysia. An improvement in the work culture of the local authorities is a prerequisite. Without this, no town planning can be effective.

Local Plans must be prepared and gazetted. These are important as documents that convey to the public what the local authorities are planning for the future development of their towns and cities. Since the preparation of Local Plans has to go through a public participation stage, the people are informed of such plans. There is an avenue for comments and objections. As such, if properly carried out, the preparation of Local Plans also assists in implementing Local Agenda 21 to facilitate consultations with local residents in the development of their areas.

The entire development control process must be made transparent. At present, the process to approve applications to undertake development by the private sector, such as real estate developers, are held behind closed doors. In other words, the One Stop Centre Committee that deliberates and makes decisions on applications to undertake development projects must be open to the public so that those who are involved in the approvals of projects can be held accountable for their actions. Furthermore, those who have interests in the projects are able to see the reasons for the rejection or approval of the projects.

At present, by the time the local residents find out about upcoming projects nearby, it is too late. Some will then hold demonstrations, while others complain to their state assemblymen and members of parliament. These late measures are generally not effective. In fact, any intervention by state leaders, such as chief ministers, will be viewed as interference. Besides the fact that any interference is illegal, it also blurs accountability. The lack of accountability is one of the main causes of poor decision making for approval of development projects.

The only authority empowered to reverse the decisions of the local authorities on development control matters is the Appeals Board of each state. But only parties that have *local-standi* can appeal to this Board.

Perhaps most importantly, there should be fair but strict enforcement of approved plans, be they Structure Plans, Local Plans or the layout plans prepared by the consultants of developers and approved by the local authorities. This is especially important after the issuance of the Certificates of Fitness for Occupation (OC). Any infringement of approved plans must be immediately investigated and acted upon. This, of course, assumes that the plans are well laid out and crafted in the first place.



Conclusion

In general, Malaysian towns and cities are not noted as internationally recognized livable cities such as Toronto, Vancouver, Melbourne, Zurich and Singapore. But they are not at the bottom of the pile either. Indeed, if one has to assess the livability of major towns and cities in Malaysia, urban centres like Kuala Lumpur, Kuching, Petaling Jaya, George Town (Penang), Melaka and Kuantan may even obtain a score of 5 to 7 points on a scale of 1 to 10, with 1 point denoting the least livable city and 10 points awarded to the city with the most livable environment. These Malaysian urban centres are certainly in a much better position compared to most towns and cities in other developing countries.

Malaysia is far from being at the bottom of the pile in terms of economic development. It is usually held up as one of the more successful and prosperous developing countries. As such, there is much justification for Malaysians to expect more by way of quality urban living. **§ Dr Goh Ban Lee**



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International Headlines

Economy in U.S. probably expanded at slowest pace in five years

Source: Bloomberg, 30th April 2008, (excerpt of article published in Bloomberg.com)

The U.S. economy probably grew in the first quarter at the slowest pace in five years as consumer and business spending faltered and the housing slump deepened. A 0.5 percent annual pace of growth from January through March, the smallest gain since the last three months of 2002, is the median estimate of 80 economists surveyed by Bloomberg News. Spending by households, the biggest part of the economy, probably grew last quarter at the slowest pace in 13 years as job losses mounted, food and fuel prices surged and property values tumbled. The economy grew at a 0.6 percent pace in the last three months of 2007. Other reports are forecast to show companies reduced payrolls in April and business activity contracted. Americans have been retrenched as employers cut payrolls by almost a quarter million workers so far this year; gasoline prices approached \$4 a gallon and home foreclosures surged.



Islamic finance can give early warning of debt problems

Source: excerpt from Business Times online, 5th April 2008

HONG KONG: The transparency and structure demanded of Islamic finance that is attracting investors burnt by the subprime crisis could well have provided warning signals of the impending debt turmoil. The subprime crisis has seen an exodus from riskier asset classes, partly as investors veer away from sophisticated products such as collateralised debt obligations that are difficult to fathom. Investors say Islamic finance products demand greater transparency and accountability from company management, so it would be more obvious when companies are getting into debt problems. Under Islamic finance, because the lender is also an investor, he remains an active participant through the life of the transaction and is in a position to rectify mistakes before the situation worsens, bankers say. This appeal has added to the growth in Islamic finance. Global bond and loan offerings issued according to Islamic guidelines have jumped 64 per cent to US\$5.5 billion (US\$1 = RM3.19) so far this year, data from Thomson Financial show. Islamic finance assets are growing at an annual pace of 20 per cent and are set to hit US\$2 trillion in 2010 from the current US\$900 billion, fuelled in part by a flood of petrodollars generated by the rise in energy prices.

Opec warns oil could reach \$200

Source: excerpt from BBC News, 28th April 2008

Opec, the oil producing cartel, has warned that the price of crude could keep rising to reach \$200 a barrel. Opec president Chakib Khelil blamed the falling value of the US dollar, which makes other assets, including oil, more attractive for foreign investors. His comments came as oil prices hit a fresh high, just below \$120 a barrel. Prices were lifted by a strike at a UK refinery that disrupted North Sea production, and supply problems in Nigeria due to pipeline attacks. BP shut down a key North Sea pipeline at the weekend after staff walked out of the Grangemouth refinery in Scotland in a two-day strike over pensions. Regular attacks on oil facilities in Nigeria, the weak US dollar and general concerns about the ability of supply to meet global demand have underpinned the market this year. Oil producers' body Opec has shown itself disinclined to raise quotas to curb rising prices. The dollar's decline has also made dollar-denominated assets such as oil and other commodities relatively cheap for some investors.

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