# Towards Sustainable Urban Development (Part 2)

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## In This Issue



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### Malaysia and the Issue of Sustainability[1]

In the 9th Malaysian Plan which was launched in early-2006, the Malaysian government included aspects of sustainable development in this broad-based policy document which sets the tone for development over the subsequent 5 years (2006 – 2010). The Malaysian government, in its recent five year 9th Malaysian Plan (Chapter 19) emphasizes the following:-

- The development of Renewable Energy (RE) and the enhancement of Efficient Energy (EE) will be forefronted by the Ministry of Energy, Water and Communications (MEWC).
- The importance of EE initiatives in industries, transport and commercial sectors as well as government buildings.

In promoting Environmental Stewardship, Chapter 22 of the 9th Malaysia Plan states that, "*the government will place emphasis on preventive measures to mitigate and minimize pollution as well as address other adverse environmental impacts arising from development activities. In addition, steps will be undertaken to identify and adopt actions to promote sustainable natural resource management practices in relation to land, water, forest, energy and marine resources*". Based on a report by the UNDP, Malaysia was found to be the 26th largest emitter of green house gasses (GHS), and in 2007, the amount was twofold the emission in 1990.

### Education in Sustainable Development

Agenda 21 for Sustainable Construction in Developing Countries was launched as a discussion document during the World Summit on Sustainable Development in Johannesburg in 2002.[2] According to the Education Underlines in Chapter 36:

"*Education is critical for promoting sustainable development and improving the capacity of the people to address environment and development issues…Both formal and non-formal educations are indispensable to changing people's attitudes*".

On October 2000, one of the significant steps taken by the Malaysian Government in bringing about the awareness of sustainable development was to set up the Centre for Education, Training and Research for Renewable Energy & Energy Efficiency (CETREE). CETREE was also established under the auspices of the Energy Commission.

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[1]Based on the presentation by Dr. Muna Hanim Abdul Samad from the School of Housing, Building and Planning, USM, "Holistic Design Approach and Ratings for Buildings in Malaysia" for the Asia Design Forum: Symposium on Green Design at the E&O Hotel, Penang on the 18th of January.

[2]Shafii, F., et.al (2005), "Achieving Sustainable Construction In the Developing Countries of Southeast Asia", Proceedings of the 6th Asia-Pacific Structural Engineering and Construction Conference (APSEC 2006), 5-6 September 2006, Kuala Lumpur, Malaysia.

One of the functions of the CETREE was to promote green sustainability awareness through both primary and secondary school co-curriculum. A competition was actually held at The Legend Hotel in Kuala Lumpur to test the effectiveness of the training and educating carried out by teaches. The secondary school teachers were then chosen to educate the students.

One of the highlights from school activities was the "mobile exhibition unit", where vegetable oil was used to operate a van. This was the first of its kind that was allowed to operate on the public road.

Another function is the CETREE-HBP-USM strategy for architecture curriculum. For the School of Housing, Building & Planning, a program called the Ecological Sustainable Development (ESD) was incorporated into the architecture program and is to be called ECOTECTURE, with the main aim of producing Eco-Architects/sustainable literate architects.



Among the sustainability approaches included promoting awareness on sustainability from the 1st year of architecture school by teaching about sustainability through core introductory architecture subjects like 'Environmental Science' and 'Introduction to the Built Environments'. The main focus was to assimilate the sustainable curriculum as fundamental principles for all architectural subjects in order to arouse interests in environmental issues.

The understanding of the building of ecosystems are also incorporated into core subjects, while specific course outlining the Building of ecosystems such as EE design and other principles is introduced to instill the understanding of sustainable building designs. In addition, the ability to design sustainable buildings is also implemented in studio projects fro the 1st to the 5th year, where it is made compulsory for 5th year students to produce EE design approach together in their thesis.

**Examples of Sustainable Development in Malaysia**

The overall energy consumption of the building can be reduced significantly by designing with climates by the use of passive structural devices, instead of mechanical equipment, which require much energy.[3] Cost savings in operational costs is interpreted as the reduced amount use of electrical energy resources. This is usually a consequence from burning of non-renewable fossil fuels. Lowering of energy consumption would reduce the overall emission of waste heat, thus lowering the overall heat-island effect on the locality".

In addition to passive design strategies for sustainability, it is also important to include proactive strategies focusing on high technology solutions, as solutions to energy conservation and environmental problems when designing a building. Advanced technology in the design and production of photovoltaic and sources of electric energy like wind-powered generators, evaporative cooling systems have encouraged the development of sustainable buildings in the examples shown below:

1. <u>Telekom Tower</u>

This building was constructed in such a way that there are slabs at every 5th floor in order to hold gardens similar to a mini park.

Among the energy efficient functions are:

- "Sky Gardens" which provide workers a haven from the hectic work environment and helps in "greening" the Tower, hence making it environmentally sensitive as it provides natural shade on both the northern and eastern facades



[3]Similar to footnote 2.

- The offices are designed in such a way that they are within a central core that makes the most of the natural lighting while at the same time keeping the place cool. Solar penetration and the reduction of air conditioning loads are significantly reduced though the narrow eastern and western frontages while enabling a substantial amount of indirect lighting

- Under the floor air-conditioning to ensure thermal comfort and good ventilation

2. Malaysian Securities Commission Building

As 2001 winner of the Asean Energy awards in Hanoi, Vietnam[4], the Securities Commission Building was designed in such a way as to fit optimally into the existing topography, minimizing earth removal for the construction of basement car parks and facilities that do not necessitate natural light. The passive concept in energy efficiency design of buildings includes building orientation and shape, sun shading, day-lighting, natural ventilation, building envelope/insulation, landscaping/green roofs and rain water harvesting. The building also has a 12 meter moat running around to enable natural daylight into the spaces underground that require natural light.

In addition to passive designs, there are also active design features in the building, including a low level displacement air-conditioning system for the atrium where hot water is allowed to stratify the remaining unoccupied 6 floors above for thermostatic ventilation. By doing so, as much a 40% of energy is saved compared to using traditional air-conditioning which utilizes more energy.

3. Low Energy Office (LEO)

The LEO was built for the Ministry of Energy, Water and Communications (MEWC). A computerised design tool was used to optimize the building design and energy systems for minimum energy consumption. Energy consumption was targeted to save 50% of its usage compared to the performance of traditional office buildings in Malaysia.

4. Kuala Lumpur International Airport (KLIA)

The airport is designed with the central theme being an "*airport in the forest*" and *"forest in the airport".* Travelers are able to rest, relax and enjoy the landscaped garden which includes forest trees and a sculptured waterfall that are situated in the central hub of the satellite building.

5. Putrajaya[5]

The planning of Putrajaya was based on the emphasis of the relationship between man and his surrounding environment. Among the main emphasis are:

- The post-development conservation of environmentally sensitive areas such as hills, natural water courses, flora and fauna as well as trees

- The creation of a lake system to influence the micro climate form

- The creation of green lungs which is vital for cushioning against potential sources of environmental problems such a vehicle emissions

- The introduction of incorporated public transport system network.

- 'Green' allocation in total land use, where over 37% of the land in Putrajaya is used for parks and open spaces

[4]http://www.aseanenergy.org
[5]Similar to footnote 2

## Issues and Challenges

Malaysia faces some challenges in the quest for greater sustainability. These include:

1. Awareness of the Concept of Sustainable Urban Development

The concept of sustainability is still relatively new in Malaysia compared to other developed nations. Although the government has taken steps to increase the awareness on sustainable development, this concept has not impacted the national consciousness deeply, especially with regard to the construction sector.

2. Training and Education on Sustainable Design and Construction

Many of the important stakeholders; i.e. contractors, manufacturers, developers in the construction industry are not even aware of the concept of sustainable/green buildings, and thus it is natural that they would be resistant to change. Therefore, the greatest barrier to implementation is the lack of understanding of the need for sustainable design.

3. The Higher Cost of Sustainable Building Options

Many stakeholders are of the opinion that the construction industries will not go green unless it transcends into profits or significant savings. The majority of their clients have also not been interested in any sustainable features except for the energy efficiency aspect, which is believed to lead to immediate paybacks.

4. Solving Procurement Issues

Undue emphasis on the lowest price rather than the best value impacts negatively on industry performance in terms of time, cost and quality. This affects the sustainability of enterprises and their ability to develop and retain a skilled workforce, and to actively promote safety, health and environmental conservation.

5. Overcoming Regulatory Barriers

Public policies and regulatory frameworks should further encourage the incorporation of green designs and sustainable development elements into the construction sector.

6. Nurturing Design Professionals in the Field

Sustainability in development is a complex issue that requires a certain amount of skill and expertise to grasp, and a significant amount of time to learn and design. It is obvious that establishing design co-curriculum in schools as well as incorporating sustainability subjects into architecture and design education are not sufficient for professionals to fully understand such roles and responsibilities.

7. More Sustainability Site References

In order to convince stakeholders on the importance of sustainable buildings as well as to adopt the approach, more examples of successful ‘green’ projects backed up with quantifiable data is required.

**Recommendations**

The major challenge to the rapid adoption of sustainable urban development concepts and technologies lies in the construction industry's unwillingness to implement 'sudden' changes which may affect their bottom line. Furthermore, the incorporation of 'new' materials in the building process over traditional concrete and cement may be met with negativity from customers, who themselves may not find the practical or financial justification for the use of these materials.

However, achieving sustainability in urban development requires the involvement by government and construction stakeholders, as actions for sustainability require both policy and financial support. As the population becomes more aware of environmental concerns, the construction industry will inevitably be expected to integrate and consider the issues valued by others at national, regional and community level, in tandem with demands from a newer set of political, social and market forces.


The following recommendations have been proposed by Shafii, Ali and Othman in response to the above challenges, as the construction industry in the region moves towards incorporating greater sustainability measures :[6]

(a) Education and training should incorporate sustainable development concepts and make such concepts well known and accepted by all people. Education is seen as an important tool in promoting sustainable development and improving the capacity of the people to address environment and development issues. This will increase the level of awareness among the actors in the entire construction process as well as the general public.

(b) Initiatives involving planning and construction should be taken through adapted regulations, standards or fiscal measures and incentives.

(c) Building owners and clients should play important roles in disseminating and promoting the concept of sustainable construction.

(d) The concepts of sustainable construction should be expressed through common definitions and language to address the issues at hand.

(e) Building planners and designers should adopt an integrated approach to design (integrated design approach).

(f) An improved building construction process and materials should be utilized as opposed to the traditional (non-sustainable) methods.

(g) Building users should consider environmental issues as a vital aspect of productivity.

(h) Manufacturers of building materials/products should take lifecycle considerations as the basis of product development.

(i) Building maintenance organizations should consider environmental consciousness as a factor of competitiveness.

(j) Suitable tools should be developed to help in the assessment of building performance (such as CASBEE in Japan, Green Star in Australia, BREEAM in the UK and LEED in the US).

[6]Similar to Footnote 2

## Conclusion

Malaysia is still lagging behind in the implementation of sustainable/green buildings on a huge scale. The country may be almost 30 years behind certain developed nations like Japan and the UK. Although there are signs of progress and a gradual build up of reference sites as mentioned in the examples adopted by many Federal buildings and Government Lead Companies (GLCs), there is still insufficient information as well as useful core data on ecological properties of markets that both students as well as professionals are able to use as guidelines, in areas such as biodegradability, recyclability, reusability and toxicity.

It is important that education and training should incorporate sustainable development concepts and be made known to all professional bodies and accepted by everyone. Also, the understanding of sustainable development through standard definitions and a common language in addressing the issues is a significant factor in reaching the goals of sustainable construction and development. In addition, designers should also adopt the attitude of considering an integrated approach in their building designs. It is vital that both private individuals and professionals strive to put sustainability in the forefront of construction and development efforts in Malaysia. ***§ Ng Ju-Ai & Ooi Ying-Chieh***

# The Petrol Price at RM2.70 for RON97: Economic Interpretations to Frequently Asked Questions or FAQs

Q: Why does petrol price keep rising?

A: Economic theory teaches us that because the demand curve is downward sloping (inverse relationship between price and demand) rising prices will be met with reducing demand. Thus, sellers have to be careful since a higher price may lead to a fall in revenues due to lower sales. In the case of RON97 petrol as Figure 2 shows, the price has remained at RM1.92 per litre, even though the world price of oil has been rising by 5.5% every month, on average, for the past 18 months. Thus no attempt has been made to cut back on petrol consumption on the part of Malaysian motorists. It is much the same in about half of the rest of the world where people also enjoy fuel subsidies. Consequently, oil demand continues to grow unimpeded because of the cap put on domestic oil prices. Meanwhile oil producers are not worried about reductions in the size of the oil market even when prices soar, because governments tend to pay for the higher prices on the people's behalf.

Q: What is the cause of the current surge in oil prices?

A: Despite the general slowing down of the world economy, demand for oil has increased. China and much of the developing world have been the main cause of increasing oil demand. Meanwhile, oil production has not kept pace with demand, resulting in a widening mismatch between supply and demand and fueling speculations on oil prices.

Q: Why hasn't the increase been gradual since the rise from RM1.92 to RM2.70 amounts to a sudden and steep 40.6 percent rise?

A: Increases have been more gradual in the past as can be seen in Figure 1. In 2004 and 2005, there were four price hikes by 2 sen, 5 sen and 10 sen in response to the rise in the world price of oil. The price for RON97 petrol was increased by 30 sen to RM1.92 per litre on 28 February 2006 when the world price of oil surged beyond US$70 per barrel. Since then, despite further upward movements in world oil prices (passing the $100 per barrel mark), the government has maintained the RM1.92 price for RON97. One reason may be that world oil prices did fall to near the $50 per barrel level in early 2007 (a year after the RM1.92 price was set). Unfortunately, world oil prices have increased steadily since as Figure 2 shows.

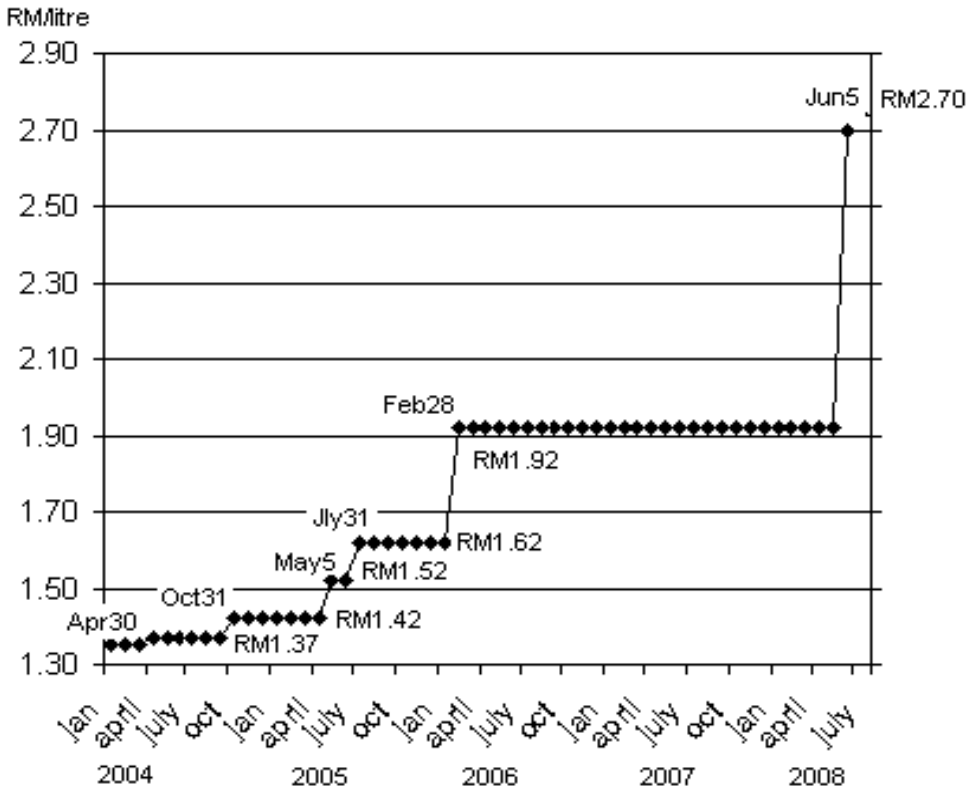


**Fig.1: RON97 Upward Price Revisions 2004-2008**

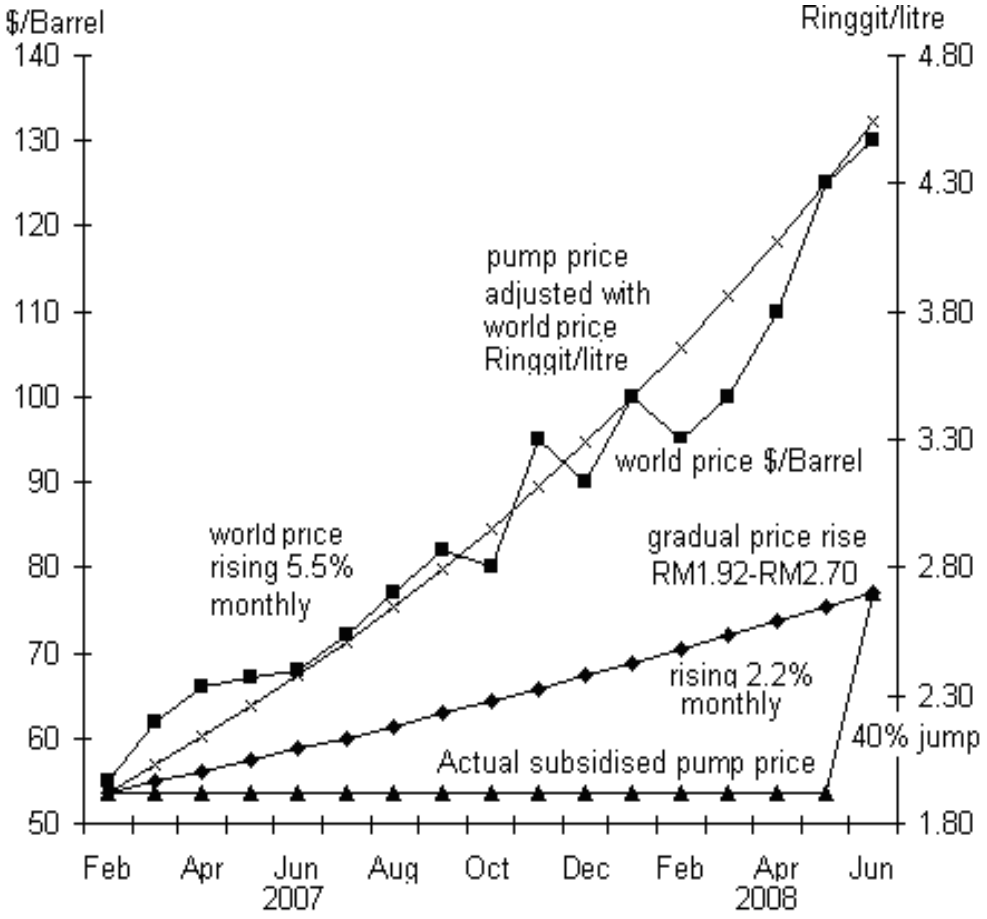


**Fig.2: World Oil Price and RON97 Pump Prices 2007-2008**

Q: How might we praise the government instead of blaming it now that citizens are feeling the pinch of high oil prices?

A: Had the government allowed pump prices to adjust gradually in tandem with world oil prices from around February 2007, the average rate of increase would have been at about 5.5% monthly (66% annually). This means that RON 97 prices would have climbed at the same rate from RM1.92 per litre then, to more than RM4.00 per litre today. On the other hand if the government had elected to allow pump prices to gradually increase from RM1.92 per litre in early 2007 to RM2.70 per litre today, then the monthly rate of increase would have been at about 2.2% (26% annually). Basically, what the government has done is it had absorbed income losses, on behalf of Malaysians, over the past one and a half years roughly represented by the area of the triangle above the actual subsidized pump price per litre as shown in Figure 2 above.

Q: At present can the government continue to maintain the petrol price at RM1.92?

A: Yes, most definitely. Malaysia is at present a net exporter of oil. In fact Malaysia's oil, which is of a high quality, called *Tapis* after the oil well off the coast of Terengganu fetches as much if not more than the NYWTI (New York West Texas Intermediate) crude and therefore as oil prices rise, Malaysia's oil revenues will also rise thus allowing the subsidies to continue. However, in only a few years from now, Malaysia will become a net importer of oil since oil demand in the country has been increasing much faster than Malaysia's oil resource. Hence, the government has decided to be more prudent. As Figure 2 above shows, even at RM2.70 per litre for RON97, there is much subsidy involved as well.

Q: Between the rich and poor, who benefits more when petrol costs RM1.92?

A: Official numbers[7] show that the price of RON97 or premium petrol was RM3.07 per litre in December 2007. Since the pump price has been fixed at RM1.92 per litre, it meant that the government paid RM1.15 for every RM1.92 that the motorist paid to make up the difference. The world price then was about US$100 per barrel. Consider if prevailing prices average US$125 per barrel (25% higher than in December 2007) and linearly extrapolating, premium petrol prices would be around RM3.84 per litre today.[8] If the government decides to continue the RM1.92 per litre price, it would mean that for every ringgit any of us pump into our cars, the government has to meet us dollar for dollar to make up the difference.

Between the rich and poor, it is clear that such petrol subsidies benefit the rich. If a person that owns a 3-litre Mercedes pumps RM10,000 worth of petrol a year, this is the amount he receives from the government. On the other hand, the other person that rides a 100 c.c. motorcycle pumps only a few hundred ringgit worth of petrol a year, and as such, the amount he receives from petrol subsidies is only a few hundred ringgit. It is thus better, as the government has decided, to channel government assistance to the people in ways other than through petrol subsidies. Furthermore, our receipt of petrol subsidies is often equal to or more than the personal income taxes we pay. So it might be, administratively speaking, easier just to forget about paying income taxes rather than to continue the petrol subsidies. *The Economist*[9] reported that a study by the IMF of five emerging economies found that if households are ordered from the richest to the poorest, the top 20% of households receive 42% of total fuel subsidies while the bottom 20% of households only receive 10%.

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[7](2008), *Penjelasan Mengenai Subsidi Dan Kenaikan Harga Barang* Jawantankuasa Kerja Teknikal Untuk Menyelaras Maklumat Mengenai Subsidi Petroleum dan Harga Barang-Barang Perlu, Jabatan Penerangan Malaysia, Kuala Lumpur, p.8.

[8]It was reported in *The Star* (June 12 2008, p.N4) that currently the market price of RON97 is RM3.45

[9]"Not everybody is paying higher prices for oil" May 31-June 6 2008, p.79.

Q: Is there a difference, collectively as a nation (i.e., not counting the circumstance of specific individuals), if the funds allocated to petrol subsidies were to be channeled to the people in ways other than as a petrol subsidy?

A: Yes. For example, for argument sake, let us say all the personal income taxes that people pay as a nation are equal to the amount of subsidy. If the government decides to abolish both the subsidy as well as taxes, then in terms of numbers there is no difference. In terms of behaviour, however, there will be a big difference, because people will begin to think more conservatively to reduce their use of petrol so that savings there can be channeled to meet other expenses. The economic argument here is that subsidies, whether for petrol or agricultural products (another highly subsidized sector), tend to result in more wasteful behaviour. In other words, conservative behaviour becomes a positive side effect of the relatively high price of oil. It appears that there is less congestion on the highways and on the Penang Bridge, maybe because more commuters have elected to car-pool in the interest of cost-saving.



Q: If one wishes to blame the government, what is the most effective argument for the present plight of the citizens due to the high price of petrol?

A: One way to look at the problem is policy and the design of our cityscapes. In the mid 80s, Malaysia launched its national car project alongside the building of highways. Correspondingly, town planners set upon a spatial distribution that allowed homes on landed properties to be sold at more attractive prices despite being located a greater distance from the city centre. This, presumably, might be the preferred option compared to living in cramped apartments of a similar property price range within the city itself. Today, many people who made this choice to live in suburban homes have to divert a larger part of their incomes to pay for the increased fuel cost of their daily commute to work.

Two observations may be made. First, by the early eighties, about the time Malaysia began its national car project, many who used to commute from modern suburbs in the Western countries had begun to move back into the city. In some of the larger cities, older inner city properties have been redeveloped into town-houses that offer the convenience of walking to work. In Malaysia, this was much harder to do at the time, because the Rent Control Act which came into force during the mid-sixties had prevented the rejuvenation of cities like Georgetown, forcing developers to concentrate on township development outside of the cities. The Rent Control Act was rescinded a few years ago and therefore similar housing redevelopment schemes can now be implemented in our own inner cities.

The second observation is that Malaysia launched its national car project despite warnings of a likely disruption in the global oil supply leading to spiraling fuel prices. In today's dollar-terms (i.e., the amount of money needed for purchases 50 years ago measured in the greenback's current purchasing value), the cost of a barrel of oil just after the end of the Second World War would have been about $20. It remained steady at this price until the turbulent years of the 70s and 80s when the world saw the oil embargo and other disruptions because of war in the Middle East. By the mid-70s, oil price had doubled to $40 per barrel and was nearing $70 per barrel by the early 80s. However, by the time the first Proton Saga rolled off onto Malaysian roads in 1987, prices had fallen back down to the $20 or so range. The Gulf War in 1991 caused oil prices to rise to about $30 per barrel but the price declined as soon as the war ended. As a response to the East Asian Financial Crisis in 1997, OPEC set a 10% quota increase allowing the price to fall well below $20 per barrel. This lasted only for a short while because OPEC then made a series of production cuts that caused prices to rise again to about $30 around the time of the 9/11 attack in New York. From then on, oil prices began its steady ascend to the $100 mark and beyond.

In some ways, the government's analysis was not wrong because the price of oil had increased at about the same rate as most other goods for a good twenty years until the early 70s. After that, prices became more turbulent but they somehow readjusted to attain that magic $20 per barrel equilibrium mark. In other words, oil prices cannot be considered high relative to other things that we buy as many have been saying. Unfortunately, this statement is no longer true. As Figure 2 shows, an annual rise in oil prices at the rate of 60% per year since the beginning of 2007 is a rate of inflation we have never experienced before. This unprecedented rise in oil prices by five folds from $20 to more than $100 is a phenomenon seen and known only during the present millennium.

Q Could there have been an alternative physical development scenario in Malaysia that would not be as painful, oil-price wise, as it is today?

A: Imagine that instead of a national car and highway project, Malaysia had instead opted 20 years ago to build an integrated and efficient system of trains and buses (much like in England, for example), today all those housing estates even as far away as 60 kilometres from the city would have been linked to the main urban centre. Daily commutes would still be expensive for those living far away but considering the savings from the car and highway projects as well as government subsidies of petrol and the operating costs of private vehicles, this would indeed be a viable option. What is more important, however, is that mass public transport systems save costs (and thus potentially benefit) a larger part of the citizenry than a transportation system based on privately-owned cars and mega highways.

Q How do oil prices bear on the spatial plan of cities OR what impact does the rising price of oil have on neighbourhood sundry shops and hyper-marts?

A: Once upon a time when not many people owned cars, sundry shops played a vital role in our lives. Customers were regulars and the local sundry shop was a focal point and conduit for news (as well as neighbourhood gossip). During difficult times, the sundry shop offered credit as well. Some sundry shops also delivered goods to the doorstep of customers. When the hypermarts (Walmart is perhaps the largest hypermart chain in the world) appeared, they began to offer wholesale prices (even lower than the supply cost faced by sundry shops) directly to customers. However, the catch was that people needed a car to shop at hypermarts that are usually located some distance from residential areas. In the wake of the prospering hypermart chains, many neighbourhood sundry shops have since closed down. But now that petrol has become more expensive, maybe the price difference between the hypermart and the sundry shop, taking into consideration car ownership and fuel costs, would have narrowed considerably and this may make shopping at sundry shops viable again.

Q: There have been calls to stop futures trading in oil to prevent speculative price hikes in the oil market. How does oil speculation push prices up?

A: This is how speculation works. Take an airline company, for example, where fuel is the main cost item. High fuel costs mean higher ticket prices which result in fewer passengers. The airline's fixed cost (aircrafts are expensive) is also high and thus jets must be kept flying. Since fuel costs have been rising by 5% monthly, the business outlook (with oil prices projected at 60% above the current level) does not look good for the airline industry. A speculator comes along and tells the airline that he would fix the price of oil a year from today at 40% above the current price. After one year, if oil prices were to rise beyond 40%, the speculator will pay the airline the difference.

On the other hand, if oil prices were to rise by only 30%, then the airline has to pay the speculator the 10% margin between 30% and 40% (this is the speculator's gain). Whatever the case, the airline will be buying oil in the market at the new price. Therefore, regardless of whether oil prices after one year rise more or less than 40%, the oil price faced by the airline has been locked in at 40% (i.e. the airline buys oil at the new price and settles the difference in cash with the speculator). This is called hedging, something that is only possible because of the existence of speculators. Now back to our question of how speculation pushes prices up. Without the ability to hedge, inefficient airlines might have closed down. Other airlines might reduce the size of their fleet to factor in lower passenger loads – all these being adjustments that can moderate the demand for oil. With hedging, airlines can plan and continue to operate within a framework of hedged prices. With someone (either the airline or the speculator) willing to accept a higher price of oil a year from now, oil producers have no hesitation in allowing oil prices to rise since demand will continue to grow. Oil users like the airline company in the example above are protected by a hedge and have the capacity to meet increasing oil costs. If speculators do not exist, there will be no such protection, forcing oil users to cut back on demand which will in turn act to moderate the global price of oil.



Q: Can we stop speculations on oil prices?

A: There is no practical way to do this. From our example above, we can see that speculators have no connection with actual oil. Their only concern is with the price of oil and they settle the difference between what the spot price is in the market and the paper price which has been pre-agreed upon with the oil consumer such as an airline company. This agreement is called a derivative instrument in the financial market. It is not real oil but only paper oil derived from what happens in the oil market. The airline will continue to buy actual oil in the market at whatever the current market price is. However, if the airline has hedged the price with a derivative instrument, it will settle the difference with the speculator such that the actual oil cost faced by the airline company (spot price plus or minus the difference from the hedged price) will be the hedged price.

In fact this was exactly what happened to the ringgit when it was fixed by Bank Negara's capital controls at RM3.80 to the dollar. In 2004, an American company may have placed a large order from Malaysia, for which payment has to be settled upon delivery of the goods, say in six months time. The news is teeming with discussions about how the ringgit is undervalued and that Malaysia's trade surplus against the U.S. is putting pressure on the exchange rate of the ringgit with the dollar. There is some talk that the differential may be as much as 20%, which would put the ringgit somewhere at the RM3 to the dollar mark. A speculator then offers the American company a hedged exchange rate of the ringgit at 10% above the peg, that is, RM3.40 to the dollar for the duration of the six month period before final payment is due. The company calculated that its business remains profitable at RM3.40 to the dollar but not at RM3 to the dollar, and thus enters into the agreement for the amount of $10 million. Six months later, if Bank Negara had continued the peg, the speculator pockets the difference between RM3.80 and RM3.40, which is 40 sen times 10 million, i.e., equivalent to RM4 million in profit. But had the peg been lifted and the ringgit actually surged to RM3 to the dollar, the speculator would have incurred a loss by the same amount. The name of the derivative for this is *non deliverable forward* or NDF, which is settled in U.S.dollars and is thus outside the control of Bank Negara. This is so since not a single ringgit of actual money is affected by the NDF, only the price of the ringgit in exchange rate terms pre-agreed upon between the speculator and the corporation, with the final transaction privately settled between them.

Q: What about the import and excise duties plus the sales tax that have already been included in the purchase price of our cars?

A: Many people have argued that there has not really been any government subsidy when we use our cars. This is because of the substantial import/excise duties plus the sales tax that have already been added to the price tags of the cars we buy. Completely knocked down ASEAN cars have no import duties but the combined excise duties and sales tax will double the purchase price of such cars. Therefore, one would have already paid tens of thousands of ringgit to the government when one buys a car. It is unlikely that the average total subsidy received over the service life-time of each new car bought would exceed the combined duties and sales tax paid. So yes, it is true that from this perspective of cost analysis, there weren't any real subsidies for car owners and users to begin with.

Q: Is it fair to deny payment of subsidies to foreigners living in Malaysia?

A: No, it isn't. As of May 2008, Malaysia has double taxation agreements or DTAs with 60 countries and negotiations are underway with about 30 more other countries. By this arrangement, nationals from the DTA countries (which include Indonesia, Bangladesh, Philippines but not Nepal) living and working in Malaysia would pay taxes to the Malaysian government but are not required to pay taxes in their home countries. Likewise, Malaysians living and working abroad in the DTA countries pay taxes there and do not have to pay taxes in Malaysia. In this regard, access to government and public services is based on the criteria of tax payment rather than citizenship. It is actually immoral if the Malaysian government says that foreigners, by virtue of their foreign status, have to pay a different fee from citizens for using Malaysian public schools, public health facilities or to pump fuel at Malaysian petrol stations. The wrinkle to the problem, however, is that most of the foreigners living and working in Malaysia do not pay taxes because they fall below the taxable income group. Undeniably, their presence in Malaysia puts a strain on the capacity of the country's public facilities (including fuel subsidies) but this is actually not their fault. The government policy should be to bring in foreigners at the higher end of the skills range who will be in the taxable income range. They can then pay their taxes and enjoy the public services available just like ordinary Malaysian citizens. They, of course, are not entitled to vote in Malaysia. Then again, many Malaysian citizens who are eligible do not register to vote as well, but this is a matter of discussion for another paper. ***§ Dr Chan Huan Chiang***

*For a more detailed discussion of this subject, see "Oil Matters: Market Conditions, Policy and Response" Penang Economic Monthly May 2005, Vol.7 Issue 5, available at http:// www.seri.com.my/ap/penang-economic-monthly-2005.html*

# International Headlines

## JAPAN'S TANKAN SENTIMENT FALLS; PROFITS TO DROP 7%

Source: Excerpt of article in Bloomberg.com, 1st July 2008

Confidence among Japan's largest manufactures fell to a four-year low and companies expect earnings to decline for the first time since the 2001 recession.

The Tankan index of manufacturer sentiment slid to 5 points in June from 11 in March, a third quarterly decline, the Bank of Japan said today in Tokyo. Large companies said profits will drop 7 percent in the year ending March 31, compared with a 0.3 percent increase predicted three months ago.

``This is bad news for Japan's economy," said Hiromichi Shirakawa, chief economist at Credit Suisse Group in Tokyo. ``The pessimistic view on profits suggests a vicious cycle from companies to households may slow wage growth and the labor market."

Record energy and commodity prices are eroding profits at Nissan Motor Co. and Canon Inc., and the U.S. slowdown is rippling through Europe and Asia, stifling demand for Japanese cars and electronics. Economists say the world's second-largest economy shrank last quarter as export growth slowed and households cut spending because of costlier food and fuel.

The yen traded at 106.10 per dollar as of 12:40 p.m. in Tokyo from 106.15 before the report. Japan's currency has weakened 4 percent since the previous Tankan on April 1. Large manufacturers see the yen trading at 102.74 on average this year.

The Nikkei 225 Stock Average fell 0.2 percent. The yield on Japan's 10-year bond rose 4 basis points to 1.65 percent. Economists predicted large-manufacturer confidence to slide to 3.

## CHINA'S MANUFACTURING GROWTH SLOWS, PMI SURVEY SHOWS

Source: Excerpt of article by By Zhang Dingmin and Li Yanping in Bloomberg.com, 1st July 2008

China's manufacturing expanded in June at the slowest pace in almost three years as growth in export orders weakened for the third month, a survey of purchasing managers showed.

The Purchasing Managers' Index fell to 52 from 53.3 in May, the China Federation of Logistics and Purchasing said today in an e-mailed statement. That's the lowest since August 2005.

A global economic slowdown triggered by the U.S. housing slump may be exacerbated by increased borrowing costs as central banks tackle rising inflation. China's growth will drop below 10 percent this year for the first time since 2002, the World Bank forecasts.

## ASIA-PAC'S RICH BRACKET OUTPACES THE REST

Source: Excerpt of article by Geraldine Cua in Asiaone.com, 28th June 2008

(SINGAPORE) Asia and the emerging markets captured the top 10 rankings in terms of the fastest growing wealthy population in 2007, with Singapore in sixth place.
Merrill Lynch and Capgemini's latest wealth report finds that the number of Singaporean wealthy individuals rose 15.3 per cent to about 77,000.

The average wealth per individual is estimated to have risen from US$4 million previously to US$4.9 million. This is higher than the global average wealth per high net worth individual (HNWI) of about US$4.04 million.

Merrill Lynch market managing director (South Asia) Kong Eng Huat says the Asia-Pacific wealth market is projected to grow at a 7.9 per cent annual clip over the next five years to US$13.9 trillion in 2012.

'(The region) will surpass Europe as the second wealthiest region after North America.'
Merrill and Capgemini have forecast in their report a growth rate of 7.7 per cent for global wealth markets to a total US$59.1 trillion by 2012, taking into account recent world developments.

Recent economic downturns in the US have been shorter, it said, thanks to increasingly effective monetary policy. Emerging markets have also outpaced analysts' expectations. High net worth portfolios have also become more diversified and mobile.

'As growth in one region or market slows, HNWIs can move freely, reallocating their funds to other areas - often more quickly than the troubled market itself can react and recover. Ultimately, this evolution will make HNWI investments less vulnerable to market downturns,' said the report.

Globally, the combined wealth of the world's high net worth individuals - defined as those with investible assets of US$1 million - rose 9.4 per cent to US$40.7 trillion in 2007. This is a shade paler than the growth in 2006 of 11.4 per cent, due partly to a slower pace of world economic growth.

The world's real GDP expanded 5.1 per cent in 2007, against 5.3 per cent in 2006. In terms of asset allocation, the wealthy have generally reduced their exposure to real estate, and moved to cash and fixed income assets. Asia's wealthy reduced their real estate weighting from 29 per cent to 20 per cent.

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