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Penang Economic Report 2008

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Year-End Review and Outlook for 2009 (Part 1)

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PENANG ECONOMIC REPORT 2008 – YEAR-END REVIEW AND OUTLOOK FOR 2009 (PART I)

A. INTRODUCTION

Nobody wants this but, like it or not, full-blown economic depression is staring at us in the face – the kind we read in history books that happened in the 1930s that came with pain and suffering, leaving us sobered with thoughts of whether we too are about to experience the same today. The upside is, today we understand much better the workings of the economy and governments are stepping in more quickly and more correctly than way back then. Government intervention, of course, comes at a cost to folks, who had no role in bringing the world to the current state of affairs but have to bear most of the cost for the necessary response to bring about recovery. It was like that too, ten years ago in Malaysia, when the government created Danamodal in order to recapitalize private losses at public expense. This action helped Malaysia's economy to recover. In a way, it is ironical that the richer nations are taking the same actions today for which Malaysia was criticized for taking previously. The alternative would be to let failing companies face the destruction they undoubtedly deserve but this would prove to be even more costly. It is like environmental pollution where the social costs are externalized. Businessmen take enormous risk by leveraging for huge private profits despite potential dangers, and when things go wrong the costs are socialized.

The source of the current problem is the bursting of the housing and credit bubble of unprecedented magnitude. The credit on housing mortgage in the U.S. is in excess of US\$10 trillion such that the current erosion of 10-25 per cent of house prices suggests that credit losses from mortgages can go into the trillions. The IMF's estimate of the financial crisis is US\$1.4 trillion, of which half has been written down, in other words, lost with little or no prospects of recovery by the creditors.¹ As for the remainder, it is unclear what the remaining collateralized debt is really worth.

The traditional business of banks is to manage the flow of credit. Banks borrow money at a low interest rate from depositors and lend it over a longer term at higher rates. They make money from the difference which is called the spread. Hence long term lending policies were based on careful assessment of both the borrower's credit and the value of the collateralized asset. However, recent financial innovations, particularly the securitization of loans and the distribution of these securities to other investors encouraged poor lending to less credit worthy borrowers (called subprime borrowers). Because banks and originators of these mortgages and other assets did not have to hold them on their books, they were less diligent in their credit evaluation.

The innovation included other instruments like *mortgage backed security* (MBS), *collateralized debt obligation* (CDO), *structured investment vehicle* (SIV), *credit default swaps* (CDS) etc. Technically with the new model, banks buy assets and then repackage these for sale, making profit in between. In a mortgage-backed CDO, a pool of property loans consisting of thousands of individual mortgages is divided into several layers or *tranches* (from the French word *tranche* which means slice or portion) with different credit risk ratings, ranging from below investment grade rating to AAA rating. Investors, depending on their risk appetite, can choose which tranche to purchase, with the risky tranches getting higher returns but lower priority in terms of repayment. The cashflow (mortgage installment payments) is distributed like a *waterfall, with priority payment to the senior tranche and the remaining cashflow, if any, distributed to the lower tranches*. So long as home owners dutifully make their mortgage payments, the design is profitable to both issuers of such securities (because of the high leverage) and to investors.

¹World Economic and Financial Surveys Global Financial Stability Report Containing Systemic Risks and Restoring Financial Soundness April 2008 International Monetary Fund

When the property market burst in 2007, there were widespread defaults especially among the subprime borrowers that immediately affected the lower tranches of the mortgage CDOs. Because of the lack of transparency and complexity of these financial instruments, even the holders of the so-called “safer” tranches felt insecure and started to sell their holdings, depressing prices of the CDOs. Second, institutional owners in the U.S. had to comply with the *Financial Accounting Standards Board* FASB-157 which came into force in November 2007. This required them to value their assets based on *fair value* that is based on the depressed market prices of such assets.² This then impacts the share prices of these institutions, resulting from bearish sentiments arising from the deteriorating asset quality of these institutions. Fourth, given that many of the affected institutions are banks, their solvency is called into question. Already overreached in their long term lending to the housing market, they also face difficulty in covering their short-term liabilities as the securitized mortgage market has failed. They have difficulty borrowing money in the inter-bank market. Fifth, bank depositors worried about their money begin contemplating a run on the banks. Hence, the property market burst has led to a potential run on banks, the same event that led to the Great Depression in 1929.



As a matter of fact, a classic run on the Northern Rock Bank (the UK's fifth largest mortgage lender) occurred on 14 September 2007 in Newcastle after it lost some £600 million. Like Malaysia, there is a modest amount of deposit insurance in the UK but instead of invoking this, the Bank of England, at the expense of all British folks, devised a rescue package to keep Northern Rock from going under and to prevent a generalized bank run. Likewise, although Malaysian banks are not anywhere near collapsing, governor Zeti has announced that Bank Negara will guarantee deposits in banks in Malaysia, at least through 2010, to allay fears since deposit insurance will only cover a small portion of our deposits.

The above story is, of course, already a year old but remains relevant today since the extent of the subprime that is embedded in the collateralized debt is held by creditors across the world and exactly how much has been lost is still not final. During the past year, falling property prices have led to a wait-and-see attitude, spreading the deflation (defined as fallen prices) to other sectors of the economy. Even oil prices have not escaped the downturn. After its meteoric rise to near the US\$150 per barrel mark, current prices are now down to only a third of this price.

The uncertain economic circumstance is causing lenders to hold back from lending, making it difficult for borrowers to borrow despite the Fed pumping liquidity into the banking system. Falling prices drag down nominal growth in the economy, the rate of which is indicative of expected returns to business. Business activities become lackluster. Interest rates are also driven downward since interest rates cannot exceed expected returns, otherwise cost of funds will surpass profits. Meanwhile, policy intervention can only occur above zero interest rates as negative nominal interest rate is an absurdity. With the nominal growth rates (expected returns) of the economy approaching the zero mark, the interest rate policy has little effect on the economy.

Such impotence on the part of monetary policy raises the question whether the government has acted too little, too late this time around? For more than thirty years, the private sector and the policy makers have argued that financial innovations have served the world well. They argued that if not for subprime mortgages fewer houses would have been purchased and built. They argued that private equity funds and hedged funds have improved the efficiency of firms and enhanced shareholders' value. The *efficient market hypothesis* claims resources in society are most efficiently allocated through the market mechanism and regulatory practices distort prices.

² One may conceive of three kinds of prices for a particular asset. The price it was purchased for, the price which you would willingly sell it for when the decision is made in the future to sell it, and the price that you can fetch if the asset is sold today. Under FASB-157, fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

The magnitude and severity of the present financial crisis that has spread throughout the world and into the real economy has called into question the efficacy of this paradigm. Major industry players like Josef Ackermann, the CEO of Deutsche Bank, admits he no longer believes in the self-healing power of the market.

The state, which has always been seen as 'bad' is now called to rescue the financial industry and also the auto industry as the private sector cannot save these sectors. Not only have all the monetary tools, including unconventional tools like quantitative easing, been called into play, the fiscal pump priming machine of the government is on full throttle and working overtime and over-cost. The costs of all these, mostly to be borne by tax payers in the future, have yet to be taken into account.

Twenty years or so ago, the neo-conservatives prematurely claimed the free-market economy has brought history to an end. Today, we know this debate is not over.

§ Dr Chan Huan Chiang & Dr Lim Mah Hui



B. PERFORMANCE OF THE MALAYSIAN ECONOMY

Gross Domestic Products

Amidst the trend of external uncertainties, the Malaysian economy registered a moderate growth of 4.7 per cent in the third quarter of 2008 (Table 1). The growth, on the supply side, was largely driven by expansion in the Services sector. The Services sector³ which accounts for nearly 54.3 per cent share of GDP, rose by 7.1 per cent in the third quarter of 2008, with the growth contributed mainly by the finance & insurance and wholesale & retail sub-sectors. The manufacturing sector, on the other hand, recorded a softer growth of 1.8 per cent in the third quarter of 2008, against the 5.6 per cent recorded in the previous quarter of the same year. This slower growth is mainly due to the contracted growth of the electronic & electrical sub-sector (-3.8 per cent) in the third quarter.⁴

Table 1: Malaysia - Real Gross Domestic Product by Industrial Origin at Purchasers' Prices (% Growth)

	Growth (%)							
	2007	2007				2008		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture, forestry and fishing	2.2	3.8	-1.5	1.9	4.7	6.3	6.0	3.0
Mining and quarrying	3.3	-0.4	7.8	2.5	3.5	3.7	-0.5	-0.3
Manufacturing	3.1	2.0	1.5	3.3	5.6	7.0	5.6	1.8
Construction	4.6	4.1	4.8	4.7	4.7	5.3	3.9	1.2
Services	9.7	9.4	9.4	10.5	9.3	8.5	8.2	7.1
GDP	6.3	5.5	5.7	6.7	7.3	7.4	6.7	4.7

Source: Department of Statistics, Malaysia

³The services sector constitutes Wholesale and retail trade, Accommodation and restaurants, Transport and storage, Communication, Finance and insurance, Real estate and business services, Government Services and Other services.

⁴National Product and Expenditure Accounts Third Quarter 2008 (<http://www.statistics.gov.my>)

On the demand side, growth has been driven mainly by resilient domestic demand of both public and private final consumption expenditure. Local private consumption, according to the Central Bank of Malaysia, registered a growth of 8.1% against 9% in the second quarter of 2008. The growth is attributed mainly to bonus payments to civil servants, festive season spending and payment of fuel subsidy cash rebates. Public consumption, on another hand, rose by 6.9%, as compared to 10.9% in the previous quarter of 2008, on continued high expenditure for emoluments, and supplies and services.

Inflation

Inflation, as measured by the annual change in the Consumer Price Index (CPI), has increased 5.5 per cent to 111.4 for the first eleven months of 2008, against the last corresponding period (CPI: 105.6).⁵ The CPI of November marked an increase of 5.7 per cent to 112.9 from 106.8 (November 2007). However, the index, when compared with the previous month (October 2008), was down by 1.1 per cent. The moderation of the index is mainly attributed to the reduction in pump prices of both petrol and diesel, as announced by the government, w.e.f. 1 November and 18 November 2008. Notably, the Transport (petrol) and Food categories were the largest contributors to higher inflation for the first eleven months of 2008 (Table 2).



Table 2: Changes in the Consumer Price Index by Main Groups, Jan – Nov 2008, Malaysia (2005 = 100)

Group (CPI Basket)	Weight	% change yoy												2007
		Jan	Feb	Mar	Apr	2008	May	Jun	Jul	Aug	Sep	Oct	Nov	
	(%)													
Total	100.0	2.3	2.7	2.8	3.0	3.8	7.7	8.5	8.5	8.2	7.6	5.7	5.5	2.0
Food & non-alcoholic beverages	31.4	3.9	4.4	4.9	5.7	8.2	10.0	11.2	11.7	12.3	12.1	11.0	8.8	3.0
Alcoholic beverages & tobacco	1.9	9.0	9.0	9.0	9.0	9.2	9.2	0.5	0.4	8.4	8.3	8.4	7.2	7.8
Clothing & footwear	3.1	-1.3	0.1	-0.9	-0.4	-0.6	-0.5	-0.4	-0.4	-1.4	0.1	-0.5	-0.5	-1.4
Housing, water, electricity, gas & other fuels	21.4	1.3	1.4	1.4	1.4	1.5	1.1	1.8	1.7	1.8	1.8	1.8	1.6	1.3
Furnishings, household equipment & routine household maintenance	4.3	1.2	1.6	1.5	1.8	2.0	2.6	3.5	4.0	4.1	4.5	4.5	2.8	1.1
Health	1.4	1.8	1.8	1.8	1.9	2.0	2.1	2.3	2.5	2.4	2.6	2.8	2.2	1.6
Transport	15.9	1.1	1.0	0.8	0.8	0.9	19.6	22.7	21.8	18.1	13.9	6.2	9.7	2.3
Communication	5.1	-0.8	-0.7	-0.6	-0.6	-0.6	-0.5	-0.6	-0.5	-0.6	-0.5	-0.6	-0.6	-1.2
Recreation services & culture	4.6	2.5	2.6	2.7	2.8	2.8	0.8	0.9	0.9	1.1	1.4	1.3	1.8	1.4
Education	1.9	1.5	2.1	2.1	2.2	2.2	2.3	2.4	2.5	2.7	2.8	2.8	2.3	1.8
Restaurants & hotels	3.0	6.8	7.3	7.1	7.2	7.1	6.7	6.7	6.5	6.3	6.6	5.6	6.7	3.7
Misc. goods & services	6.0	2.9	3.3	3.7	3.3	3.1	3.6	4.2	3.9	3.2	4.2	2.4	3.4	1.0

Source: Department of Statistics, Malaysia.

⁵Department of Statistics, Malaysia

If the global crude oil, commodities and food prices continue easing, the inflationary pressure in the country is expected to be cooled down and reduced in the fourth quarter of 2008 and 2009. As unveiled in the revised Budget 2009 on Nov 4, the inflation rate of 2009 is expected to recede to a range of about 3 - 4 per cent.

If the global crude oil, commodity and food prices continued easing, it is estimated that the inflationary pressure in Malaysia is set to cool down or moderate in the 4th quarter of 2008 as well as in 2009.

Trade

Malaysia recorded total trade of RM1,012.5 billion in the first ten months of 2008 (Table 3). Malaysian exports for Jan-Oct 2008 increased strongly by 13.9 per cent to RM565.7 billion, buoyed by the strong export performance for the first three quarters of the year, while imports climbed 7.6 per cent compared to the same period in 2007. As a result, the trade surplus has expanded strongly to about RM119 billion, compared with RM81.4 billion in the same period last year.



Table 3: Malaysia – Total Trade, Jan-Oct 2007 and Jan-Oct 2008

	2007 (Jan-Oct)	2008 (Jan-Oct)	Change (%)
	Value (RM billion)	Value (RM billion)	
Total Trade	912.2	1,012.47	11.0
Exports	496.8	565.66	13.9
Imports	415.4	446.81	7.6
Trade Balance	81.4	118.85	46.0

Source: Department of Statistics, Malaysia

Singapore, US, Japan, China and Thailand were the top five export destinations for the first ten months of 2008. The export to Asean countries (RM147.77billion) during the first ten months of 2008 accounted for more than a quarter of Malaysia's total exports, which marked an increase of 16.8 per cent from the corresponding period in the year before. The electrical and electronic products sector remained the top in the export list, contributing to RM216.27 billion or 38.2 per cent of total exports. Other major export products include palm oil (7.6 per cent of total exports), crude petroleum (6.9 per cent of total exports), chemicals and chemical products (6.3 per cent of total exports), liquefied natural gas (5.4 per cent of total exports), refined petroleum products (5.1 per cent of total exports), machinery, appliances and parts (3.3 per cent of total exports), and manufactures of metal (3 per cent of total exports).

Meanwhile, the noted rise in imports is mainly attributed to higher imports of consumption and intermediate goods. Nearly a quarter of the Malaysian imports were from ASEAN countries, which registered an increase of 8.7 per cent during the first ten months of 2008.

Crude Petroleum

The Jan-Oct 2008 Malaysia external trade statistics indicate that the export of crude petroleum and refined petroleum products have registered a significant increase of 45.2 per cent and 57.4 per cent respectively from the same period last year. The export of crude petroleum during this period amounted to RM39.22 billion or 6.9 per cent of total exports, whilst the export of refined petroleum products reached RM28.8 billion or 5.1 per cent of total exports. The rise in the petroleum export value is mainly attributed to rising oil prices in the past few months.

Nevertheless, to-date (23 Dec 08), crude oil prices have fallen to the lowest level (below USD 40.00 a barrel) since May 2005, a sharp slash of 73 per cent below its July 08 record high (USD 147.00 a barrel), amid growing concerns of the weakening global economy that will slow down world demand for energy. The drop of every USD 1.00 will lop off millions of dollars generated from oil export earnings per year for Malaysia.

On the other hand, the dip in crude oil prices is a boon for consumers. Malaysians suffered the consequences of the sharp surge of petrol prices in June 2008 when the government increased the fuel price by 78 sen from RM1.92 to RM2.70 per litre. To-date (16 Dec 08), there have been altogether seven price adjustments since August 2008. Currently, the price of premium unleaded petrol (RON97) and regular unleaded petrol (RON92) are RM1.80 per litre and RM1.70 per litre respectively. The price of diesel is set at RM1.70 per litre. Inflation pressures are expected to ease along with the reduced price of fuel. Nonetheless, the fall in fuel prices does not instantly translate into lower prices of goods and services.

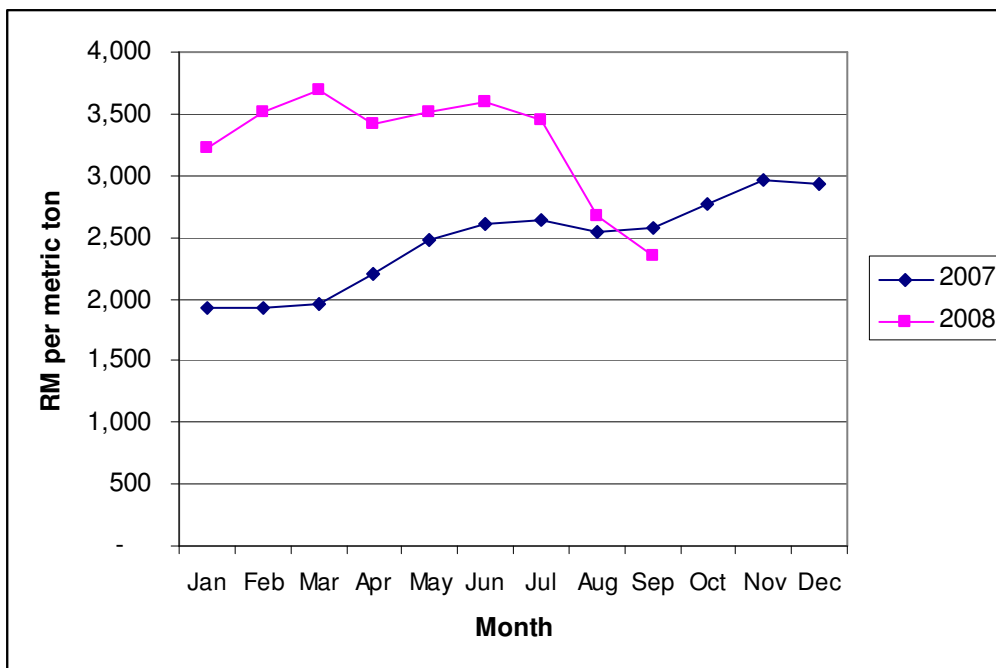
Furthermore, the government has stopped paying petrol subsidies since the beginning of November 2008 as global oil prices fell to USD65 per barrel.⁶ The country expects to save more than RM10 billion in petrol subsidies next year if oil prices remain stable, citing Domestic Trade and Consumer Affairs Minister Shahrir Abdul Samad. The government has paid fuel subsidies amounting to RM15.57 billion as at the end of October 2008, while fuel subsidies cost the government RM16.2 billion in 2007.



Palm Oil

Besides crude petroleum, palm oil is another crucial commodity that has contributed to the strong export performance of the country for the first ten months of 2008. The average monthly palm oil prices peaked in March 2008 at RM3,695 per metric ton (Chart 1). Nevertheless, the palm oil price fell sharply (by more than 60 per cent) in the wake of the domino effect from the US credit crunch and the falling price of crude oil – factors which could reduce demand for biodiesel (with palm oil being the major input supply for the biodiesel industry). To-date (14 November 2008), the crude palm oil delivery prices have traded between RM1,430 and RM1,485 per metric ton.

Chart 1: Average Monthly Palm Oil Prices, 2007 and 2008 (September)



Source: Malaysian Palm Oil Board

⁶The Star, November 29, 2008

The country is experiencing a significant contraction in export earnings due to the sharp drop in the price of the major commodities. Some experts expect commodity prices to fall even further and have forecast trade in palm oil at around RM1,000 per ton in 2009 and RM1,250 in 2010.⁷

The sharp fall in the price of palm oil spells a challenge for the planters, particularly the smallholders or independent oil palm farmers who account for about 30-35 per cent of Malaysia's total palm oil output. According to Deputy Commodities Minister Kohilan Pillay, the prices today are hovering near the margin of production costs for most smallholders, squeezing their earnings and pushing them close to the brink of bankruptcy.⁸

To deal with the challenge, Malaysia and Indonesia, which account for 85 per cent of global palm oil output, plan to replant old trees and mandate biodiesel use to cut supply and bolster prices. Malaysia aims to fell some 200,000 hectares of old palm oil trees and all government vehicles will start using biofuel in the next few months. Smallholders will be given a RM1,000 incentive by the government for each hectare replanted. The move aims to push up the CPO price to RM2,000 per metric ton.

Highlights for Selected Sectors

Manufacturing Sector

In the first ten months of 2008, the manufacturing output rose 3.3 per cent against the same period in the previous corresponding year.⁹ Nevertheless, the manufacturing output in October 2008 dropped 2.5 per cent compared to October 2007. As weighed against the previous month, the output fell by 5.4 per cent. The negative growth of the sector's output in October 2008 was mainly caused by sub-sectoral declines in manufacture of television and radio transmitters, and apparatus for line telephony and line telegraphy (24.4 per cent); manufacture of office, accounting and computing machinery (15.5 per cent) and manufacture of electronic valves and tubes and other electronic components (6.9 per cent).

The electrical & electronic (E&E) products continued to be the country's leading export earner and accounted for 38.4 per cent of total exports during the period January – September 2008. The export revenue of the E&E products inched up mildly by about RM2.1 billion or 1.1 per cent of the total exports in Jan-Sep 2008, as compared to the same period last year. However, it is noted that the electronic integrated circuits, which accounts for about a quarter of total exports of electrical & electronic products, dwindled by 7.4 per cent to RM52.5 billion.¹⁰

During the Jan-Sep 2008 period, a 1.089 million workforce was engaged by the Manufacturing sector, reflecting a small decrease of 1.2 per cent as compared to 2007 (Jan-Sep)¹¹. The productivity, or average sales value per employee, has recorded an increase of 15.2 per cent during the first eight months of 2008, as compared to the last corresponding period.

The country has continuously remained an attractive investment location, particularly for foreign investors. During the first nine months of 2008, the approved manufacturing projects rose 36.4 per cent to RM53.9 billion, against the last corresponding period (Table 4). 73 per cent of the total approved investment amount was made up of foreign investments.

⁷CLSA Asia-Pacific Markets

⁸Malaysia Kini, November 23, 2008

⁹Department of Statistics, Malaysia

¹⁰Malaysian External Trade Statistics September & January - September 2008 (www.statistics.gov.my)

¹¹Monthly Manufacturing Statistics Malaysia September 2008 (www.statistics.gov.my)

Table 4: Malaysia - Approved Manufacturing Projects, Jan-Sept, 2007 and Jan-Sept, 2008

	Number	Domestic Investment (RM billion)	Foreign Investment (RM billion)	Total (RM billion)
Jan-Sep 2007	702	17.76	21.76	39.52
Jan-Sep 2008	643	14.44	39.46	53.90

Source: MIDA Penang

Note: Slight discrepancies may occur due to the rounding up of figures. Data is subject to adjustments and revisions by MIDA.

Automotive Sector



The vehicle sales in October 2008 plummeted 12.6 per cent to 37,512 units, measured against the same month last year.¹² Within one month, October 2008's vehicle sales plunged 26.1 per cent from a total 50,729 units in September 2008. The drop of sales volume in October could be mainly due to lower and more cautious consumer spending amidst concerns of a possible recession ahead.

Nonetheless, 2008 is deemed as a good year for the motor vehicles sector, attributed to more attractive new model launches and fairly stable economic growth so far. From January - October 2008, a total of 467,425 motor vehicles were sold, registering a strong increase of 16.5 per cent, as compared to the same period last year (Table 5). Of the total sales in the first ten months of 2008, 91.1 per cent were passenger vehicles. Meanwhile, the total production of vehicles for January to October 2008 rose 24.3 per cent to 449,988 units, against the last corresponding period.

Table 5: Sales and Production of Motor Vehicles in Malaysia, January – October 2008

	Oct 2007	Oct 2008	Change (%)	Jan-Oct 2007	Jan-Oct 2008	Change (%)
Sales of Motor Vehicles	42,915	37,512	-12.6	401,149	467,425	16.5
Production of Motor Vehicles	34,629	46,281	33.6	361,969	449,988	24.3

Source: Malaysian Automotive Association (MAA)

National carmaker Proton's stronger sales demand and better profit margin from the last two launches (i.e. the *Persona* and the new *Saga* models, which accounted for over 90 per cent of increase sales), coupled with new income from the sale of rights for use of Intellectual Property Rights in the China market, together with the operational improvement from its cost reduction efforts have assisted the company to make a turnaround after a bumpy performance last year.

According to industry sources, the annual motor vehicle sales are expected to surpass the 2008 forecast sales (by the Malaysian Automotive Association) of 510,000 units. Nonetheless, they are not so optimistic for the coming year in the course of the global economic slowdown. The industry is also expecting a lack of new car launches in 2009 and this could hold back sales. Among the few projected new launches in 2009 are Proton's multi-purpose vehicle (MPV), a new Perodua model, and a new Honda City. Moreover, financing is another factor that could cause slower sales next year.

¹²Passenger Vehicle includes all passenger carrying vehicles i.e. Passenger Cars, 4WD/SUV, Window Van and MPV models.

Tourism Sector

2008 continues to be an eventful Visit Malaysia Year for the nation. Tourist arrivals for the first ten months of 2008 have reached 18.1 million or registered a 4.8 per cent growth against the last corresponding period.¹³ As the growth rate of arrivals for Jan – Oct 2008 is still below the targeted 7 per cent annual growth, more concerted efforts may have to be pumped in to ensure the entire year's target of 22.5 million tourists with estimated tourist receipts / revenue of RM50.3 billion can be met.

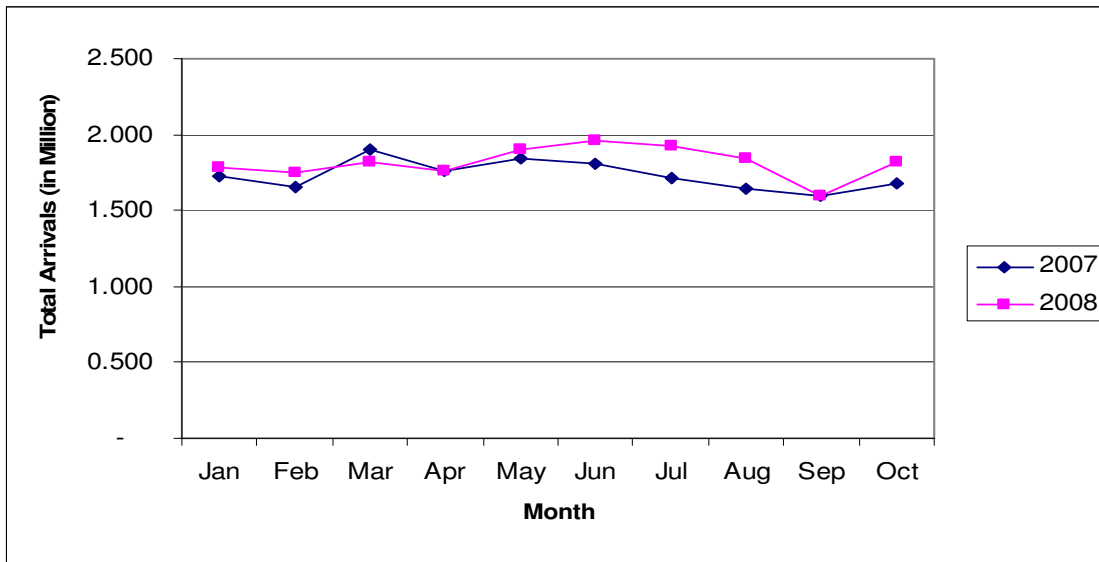
The top ten tourist markets for Malaysia during the first ten months were still mainly from Asean and the Asia Pacific countries (Table 6). Of these top ten tourist markets, four of them, namely Australia, United Kingdom, Indonesia and India, have registered more than 30 per cent growth rate. The affluent West Asian tourists, especially those from Saudi Arabia and the UAE, have registered contracted growth (of about 8-10 percent) in arrivals during the Jan-Oct 2008 as compared to the same corresponding period last year. Nevertheless, the decrease, to a certain extent, has been cushioned by the increase of Iranian tourists, where their numbers have doubled, from 23,969 (Jan-Oct 07) to 49,932 (Jan-Oct 08).

Table 6: Tourist Arrivals to Malaysia, Jan-Oct 2007 and Jan-Oct 2008

Country of Residence	January - October		Change (%)
	2007	2008	
Singapore	8,673,340	9,010,218	3.9
Indonesia	1,480,436	1,959,382	32.4
Thailand	1,312,685	1,243,355	-5.3
Brunei	908,397	823,960	-9.3
China (including Hong Kong & Macao)	630,545	802,956	27.3
India	347,566	459,079	32.1
Japan	301,183	359,871	19.5
Australia	253,199	346,423	36.8
Philippines	266,964	323,974	21.4
United Kingdom	223,048	303,569	36.1
South Korea	180,541	231,472	28.2
West Asia	219,926	201,811	-8.2
Saudi Arabia	71,501	65,843	-7.9
Iran	23,969	49,932	108.3
UAE	35,876	32,258	-10.1
USA	172,108	186,423	8.3
Taiwan	169,695	166,527	-1.9
Vietnam	106,954	103,319	-3.4
Scandinavia	95,922	94,558	-1.4
Germany	63,283	90,476	43.0
Netherlands	46,113	74,740	62.1
France	49,687	71,466	43.8
Others	1,820,622	1,294,580	-28.9
Grand Total	17,322,214	18,148,159	4.8

Source: Tourism Malaysia

On 7 July, 2008, the United Nations Education Scientific and Cultural Organization (UNESCO) jointly inscribed Melaka and George Town in the UNESCO World Heritage List. Melaka and George Town, the old cities of Peninsular Malaysia's west coast, have a developmental history stretching over many centuries, having been the Malacca Straits' primary trade and cultural hubs connecting the merchants, sailors and immigrants of the East and West.



The mixed influences of Asia and Europe have endowed the towns with a specific multicultural heritage that is both tangible and intangible. As such, the two towns today constitute a unique architectural and cultural townscape without parallel anywhere in East and Southeast Asia.

The UNESCO listing is an honour not only to the two cities, but also to the country, a definite boost for multiculturalism and tourism for Malaysia. As a result, both Melaka and George Town now require more careful conservation, rehabilitation, upgrading and adaptive reuse of buildings of historical, architectural and cultural significance. Emphasis should be given to the promotion of living heritage as a perpetual asset of the local community in the two States.

The Malaysian Budget 2009 has allocated a total of RM50 million for the conservation works of heritage sites in Melaka and Penang to support activities undertaken by non-governmental organizations (NGOs) and the private sector, as well as a launching grant of RM30 million towards the establishment of an industry-based non-profit training centre, with the objective to upgrade the skills of existing nurses to meet increasing market demand for specialists in nursing. These measures are deemed positive for the tourism sector on the whole, in particular for heritage and medical tourism, which are considered high-potential sub-sectors for future growth.

Economic Corridors

The government has rolled out five regional growth corridors to-date (Table 7). These regional corridors may have varied concepts and vision, but all have one goal – to function as the principal catalyst of balanced growth, both at the regional and national levels, and to spearhead rapid economic development and expansion.

As all these economic corridors have a span of many years to realize their long-term goals, it is believed that the real benefit or impact of these growth initiatives would only be seen over the next 3 – 5 years. The regional corridor authorities will spearhead efforts to facilitate and expedite the implementation of programmes and projects already identified.

Not long ago, the Prime Minister of Malaysia mentioned that there might be some cutbacks in the corridor development projects. However, the Second Finance Minister has since clarified that the Government has no intention to cut back on the projects.

Table 7: Regional Economic Growth Corridors in Malaysia

Iskandar Malaysia	
Development Period	2006-2025
Areas of Coverage	2,216 square kilometers (District of Johor Bahru and partial district of Pontian – Mukim Jeram Batu, Mukim Sungai Karang, Mukim Serkat and Pulau Kukup)
Targeted Sectors / Industries	Education Financial Healthcare ICT and Creative Industries Logistics Tourism
Expected Employment *	1.4 million
Expected Investment *	RM382 billion
Northern Corridor Economic Region (NCER)	
Development Period	2007-2025
Areas of Coverage	17,816 square kilometers (Penang, Kedah, Perlis and Northern Perak – Districts of Hulu Perak, Kerian, Kuala Kangsar and Larut Matang-Selama)
Targeted Sectors / Industries	Agriculture Human Capital Infrastructure Manufacturing Tourism
Expected Employment *	3.1 million
Expected Investment *	RM178 billion
East Coast Economic Region (ECER)	
Development Period	2007-2020
Areas of Coverage	66,736 square kilometers (Pahang, Kelantan, Terengganu and district of Mersing, Johor)
Targeted Sectors / Industries	Agriculture Education Manufacturing Oil, Gas & Petrochemical Tourism
Expected Employment *	1.9 million
Expected Investment *	RM112 billion
Sabah Development Corridor	
Development Period	2008-2025
Areas of Coverage	73,997 square kilometers (whole Sabah)
Targeted Sectors / Industries	Agriculture Environment Human Capital Infrastructure Manufacturing Tourism
Expected Employment *	2.1 million
Expected Investment *	RM113 billion
Sarawak Corridor of Renewable Energy	
Development Period	2008-2030
Areas of Coverage	70,708 square kilometers (Tanjung Manis-Similajau and hinterland)
Targeted Sectors / Industries	Aluminium Glass Marine Engineering Metal-based Petroleum-based Timber-based Aquaculture Livestock Palm oil Tourism
Expected Employment *	3.0 million
Expected Investment *	RM334 billion

Instead, some of the projects in the corridors may be accelerated and some may be replaced with others.¹⁴ According to him, the most mature Iskandar Malaysia corridor, together with the NCER and ECER, are set to be launched as planned. Meanwhile, the governments of Sabah and Sarawak will have to respectively sort out how to facilitate the necessary legal aspects for projects in the Sabah Development Corridor and Sarawak Corridor of Renewable Energy.

However, the eventual success of the regional economic growth corridors will very much depend on the support and promises of the private sector players to participate in the long run. Apart from private sector participation, the close co-ordination and co-operation between the Federal Government, the State Governments and their respective local authorities are equally important, in particular to enhance communication, reduce politicking, strengthen the commitment of the public sector in these growth corridors (despite political power shifts), and work together to face the tough economic challenges that lie ahead.



Key Challenges

External Risks

Global Slowdown...Recession

The global financial bubble, triggered by the US subprime crisis, has started bursting since the second half of 2008. Lehman Brothers, AIG, Fannie Mae and Freddie Mac, as well as many other large investment or financial institutions in US and Europe, have either collapsed or have been bought up or bailed out by their respective governments through various extensive financial rescue packages. At the point of writing (mid-Nov 08), at least 110 banks have requested more than US\$170 billion (RM595 billion) from the US Treasury Department's rescue fund, and many more are expected to have submitted applications before the deadline. Hundred of thousands of people are in the process of losing their jobs as firms downsize, are taken over or go bankrupt.

The gloomy outlook for the global economy due to uncertainty and instability in the international financial, currency and commodity markets, coupled with doubts about the direction of monetary policy in some dominant economies, could present considerable risks for a developing economy like Malaysia. Initially, many thought the Asian economies might be able to sidestep the Western credit crunch, but this now seems not to be the case. The stock markets of many Asian countries have dipped sharply and their currency values are on a depreciating trend.

Furthermore, the foreign direct investments (FDIs), mainly from the US and Europe, have contributed significantly to the developing economies. Most of the finished goods and services from these FDIs in the developing countries will be shipped back to the western markets. The slow down or recession in these wealthy economies would pose a higher risk of contractions as well as heighten the risk of retrenchment / layoffs in the developing economies.

Malaysia has not faced an internal subprime mortgage crisis like many Western economies, but since the country practices trade openness, a global economic slowdown or recession is likely to generate a deep impact on the local economy, given the knock-on effects of an increasingly inter-connected world.

¹⁴The Star, 8 November 2008, Bizweek, Cover Feature (page BW9)

Internal challenges

Fears of Mass Layoffs

Malaysia's closest southern neighbour, Singapore, has slipped into its first recession since 2002 after its economy experienced contracted growth for the second-straight quarter in 2008. Tens of thousands of Malaysian workers, who account for about 30 per cent of the foreign workforce in the island republic, are expected to be retrenched when the firms start their downsizing exercise.¹⁵

In our own backyard, will the export-oriented manufacturing firms, especially the electronics & electrical-based MNCs, whose major markets are the recession-hit United States, Europe and Japan, start their own mass layoff / retrenchment exercises as a resort to cut costs?

Lack of Cost Competitiveness

Moreover, in order to compete in the midst of weakening global demand, some low cost producers in the developing economies may slash prices to clear their excess product stockpiles. As Malaysia is at the juncture of being neither a low-cost center nor high-tech hub, the idea to engage in a fierce price war may not be a sure-win venture, especially with regard to the local small and medium industries, which lack economies of scale and cost efficiency.

Political Concerns

Not long ago, Malaysian enterprises used to be proud of the country's political stability, often used as a selling point while on overseas roadtrips to lure FDIs. Today, although the political climate is not as bad as some of our neighbouring countries, the confidence level of FDIs has, to certain extent, been negatively affected. Some form of political stability is needed to uphold investors' confidence as well as for the economy to thrive, especially during these unusual times of sudden and unpredictable challenges and changes.

What is Malaysia's response to the crisis?

Economic Stimulus Package

On 4 Nov, 2008, the Deputy Prime Minister of Malaysia and Minister of Finance tabled a revised Budget 2009 and an economic stimulus package, with the aim of mitigating the slowdown and strengthening the domestic economy. The government revised its 2008 Gross Domestic Product (GDP) growth estimate from 5.7 per cent to 5 per cent and 2009 GDP growth projection from 5.4 per cent to 3.5 per cent. The government, drawing from the savings of fuel subsidies, will inject a sum of RM7 billion (or 0.9 per cent of GDP) for a higher multiplier effect through government spending / projects (Table 8).

¹⁵ The Star, October 14, 2008

Table 8: Breakdown of Additional RM7 billion Government Spending

Type of Spending	RM billion
Set up an investment fund to attract private investment	1.5
Low-cost housing	1.2
Upgrade and improve of small infrastructure projects	0.6
National security personnel	0.5
Upgrade and improve public amenities etc. school, hospitals, roads	0.5
Upgrade roads in rural area and agriculture land	0.5
Improvement of public transportation system	0.5
High-speed broadband infrastructure	0.4
Training programs to meet industry and employers' needs especially in growth corridors	0.3
Religious schools, 'mission schools', SJK schools	0.2
Human capital development programs	0.2
Revival of abandoned housing projects (SPNB)	0.2
Pre-school education	0.2
Youth and unity programs	0.1
Beautification of small towns and increase of business premises	0.1
TOTAL ALLOCATION	7.0



Source: *The Star, Budget 2009 Winding-up Speech*

Various measures have been tailored to boost private investment and consumption, enhance the private sector, create employment, assist local entrepreneurs via micro-credit schemes, improve public sector transparency, as well as liberalize the services sector (Table 9).

These much needed expansionary efforts could be a partial buffer against an anticipated slowdown of the domestic economy in the coming months. Furthermore, the setting up of a RM1.5 billion Investment Fund, the relaxation of FIC guidelines, and the liberalization of the services sector (in logistics, telecommunications, tourism, private hospital services and institution of higher learning), are also expected to strengthen the medium-term base for the economy to embark on a more sustainable growth track.

It is the general market opinion that the country's economic management lacks speed, clear direction and efficiency in execution. To-date, only about 50 per cent plus of the Ninth Malaysia Plan, 2006-2010 (9MP) allocation has been spent.¹⁶ During this challenging juncture, proper and productive spending is crucial to stimulate the economy and restore the confidence of the people.

To maximize these economic stimulus measures, the proposed Project Management Unit (under the purview of the Ministry of Finance) is highly anticipated to ensure a timely disbursement of funds, to apply a credible system of checks and balances in the implementation of projects, as well as to make certain that spending is well targeted and structured to yield maximum benefits for the economy.

However, we should be mindful that the revised budget preserves 2008's fiscal deficit at 4.8 per cent of GDP. The 2009's budget deficit is projected to be 4.8 per cent of GDP, despite the earlier projection of 3.6 per cent. With the extraordinarily uncertain global economic outlook, the strained budget deficit might be a factor holding back future policy options and fiscal flexibility.

¹⁶The Star, 8 November 2008, Bizweek, Cover Feature (page BW9)

Table 9: Measures to Improve Economic Stability at A Glance

Boosting private consumption	Optional reduction of employees' EPF contribution to 8% from 11% w.e.f. 1 Jan 09 till 31 Dec 2010 Increase limit of staff car loans for civil servants by RM10K across the board Civil servants allowed to take housing loans to purchase property in secondary market Extend the longer staff loan repayment period from 25 years to 30 years to existing borrowers Allowing hypermarkets to open till 11pm on weekdays and 1am on weekends
Enhancing the private sector	Abolish import duty for cement and production of long iron and steel products Exempt Approved Permit for production of long iron Allow foreign individuals and entity to purchase commercial land (for own use) valued at RM500K or more without FIC approval Grant permits directly to 'knowledge workers'
Measures to create employment	GLCs to launch 'Graduate Employability Management Schemes' Expedite employment for critical positions in the public sector
Boosting private Investment	Value creation through open tender sale of government prime land, e.g. Lembaga Getah Malaysia in Sg Buloh, Jalan Cochrane and Jalan Ampang Hilir.
Micro-credit schemes	Bank Negara Malaysia to grant RM200 million in loans for micro-credit scheme Government to provide RM100 million in working capital fund
Liberalization of services sector	To liberalize the services sector allowing up to 70 per cent foreign holdings in 2015 according to the ASEAN Services Working Framework (AFAS) Identification of the logistics sector areas and certain activities in telco, tourism, private hospital services and higher education to be liberalized, with the details released upon Cabinet approval
Improving public sector transparency	Majority of government procurement to be carried out through open-tender and restricted tender systems Bumiputera contracts to be tendered through competitive bidding Set up Project Management Unit under the purview of MOF to oversee and execute critical and high-impact projects

Source: *The Star, Budget 2009 Winding-up Speech*

Relaxed Rules on Manufacturing Licence

With effect from 1 December 2008, manufacturing licence applications will no longer require approval (except for certain projects related to security, health, environment and religion) by the Secretary-General of Ministry of International Trade and Industry (MITI).¹⁷ The automatic issuance of licences within two days will be made by the Malaysian Industrial Development Authority (MIDA). Other measures include scrapping the import duty on raw materials and intermediate goods used for local manufacturing activities, as well as reviewing business licences and fees by local authorities to reduce the cost of doing business and speed up SME start-ups. These relaxed rules could foster a more conducive investment climate and attract more foreign and local ventures.

¹⁷The Star, 15 November 2008

Monetary Policy

In addition, the fiscal stimulus has been accompanied by monetary easing policy. On 24 November 2008, Bank Negara Malaysia (BNM) decided to cut its Overnight Policy Rate (OPR) from 3.50 per cent to 3.25 per cent, prompted by the heightened downside risks to growth due to the weakening global economic outlook as well as softer domestic private sector activities and labour market conditions.¹⁸ Moreover, with effect from 1 December 2008, the Statutory Reserve Requirement (SRR) will also be reduced to 3.5 per cent from 4 per cent. The measures are aimed at providing a more positive monetary environment and will result in greater liquidity for the financial system as the cost of borrowing is brought down for consumers.

Year 2009 Outlook

'The Global Financial Crisis – how long will it last?' seems to be the question of the day. No one is currently able to give an exact answer, partly because the initial stages of the recession may still be unfolding. Perhaps, a closer look at the record of past economic / financial crises and the duration of slowdown / recession should yield some clues or ideas for a preliminary analysis (Table 10).



Table 10: Major World Economic / Financial Crisis

Period	Major World Economic / Financial Crisis	Duration of global economy slowdown / recession
1929-1937	The Great Depression	5 – 6 years
1973-1975	First oil shock	12-18 months
1979-1980	Second oil shock	6- 12 months
1990-1991	US recession	9 - 12 months
1997-1998	Asian Financial Crisis	12 – 15 months
2001-2002	US dot-com bust	About 9 months
2008 - ??	Global financial crisis	??

Source: Various websites, National Bureau of Economic Research, The Library of Congress, US

The major Asian economies like Singapore, Hong Kong and Japan have entered the technical recession stage after their respective economies contracted for the second-straight quarter in 2008. The IMF revised the global output growth from 3.0 per cent to 2.2 per cent in 2009, with output contraction expected in the United States, Europe, and Japan (Table 11). This is expected to send commodity prices on a downward track and create reduced demand for exports. With the weakening external conditions, Malaysia also cut its 2009 growth forecast from 5.4 per cent to 3.5 percent (Table 12).

¹⁸Bank Negara Malaysia, 'Monetary Policy Statement', 24 Nov 2008

Table 11: Global and Major Economies Growth, 2007 - 2010

	International Monetary Fund (IMF)						World Bank					
	2007	2008E		2009F		2010F	2008E		2009F		2010F	
	Actual	Old	Revised	Old	Revised		Old	Revised	Old	Revised	Old	Revised
World Output	5.0	3.9	3.7	3.0	2.2	4.2	4.3	3.7	4.5	2.1	4.8	4.0
US	2.0	1.6	1.4	0.1	-0.7	2.0	1.1	n.a.	1.9	n.a.	2.5	n.a.
Europe	2.6	1.3	1.2	0.2	-0.5	1.3	1.7	n.a.	1.5	n.a.	1.9	n.a.
China	11.9	9.7	9.7	9.3	8.5	9.8	9.4	n.a.	9.2	n.a.	9.0	n.a.
Japan	2.1	0.7	0.5	0.5	-0.2	1.3	1.4	n.a.	1.6	n.a.	2.1	n.a.

Note: n.a. Not Available

Source: IMF (Nov 6, 2008 Forecasts), World Bank (Nov 12, 2008 Forecasts), CIMB Research Report

Table 12: Regional GDP Growth – Official Forecast, 2008 and 2009

	2008E	2009F
	%yoy	%yoy
Malaysia	5.0	3.5
Singapore	3.0	4.0 – 4.9*
Thailand	4.3 – 5.0	3.8 – 5.0
Indonesia	6.1 – 6.2	5.5
Hong Kong	3.0 – 3.5	n.a.

Note: * Monetary Authority of Singapore's Survey of Professional Forecasters, Sep 08
n.a. Not Available

Source: CIMB Research Report

Malaysia's RM7 billion (or about 0.9 per cent of the GDP) pump priming is perceived as a relatively small amount compared to the roll-out packages of other economies around the world (Table 13). Will the RM7 billion stimulus package be enough to lead the country out of the shadows of a gloomy outlook? One school of thought alerted that the country should not overstrain its budget resources, while another is of the opinion that we should not be too cautious about the budget deficit but instead continue spending normally for the overall health of the economy. In fact, the critical success factor beyond the total package amount is the execution of the stimulus plan, of which encouraging a healthy level of domestic spending may be an important part. Timeliness, efficiency and effectiveness in execution are essential for optimizing the effects of the stimulus strategy on the local economy.

Table 13: Size of Fiscal Stimulus Package

	USD (billion)	Country's currency (billion)	% GDP
United States	168	168	1.2
China	586	4,000	12.3
Japan	69	7,000	1.4
Germany	65	50	1.7
South Korea	11	14,000	1.1
India	4	200	-
Thailand	3	100	1.0
Malaysia	2	7	0.9

Source: International Monetary Fund (IMF), Asia News Network, CIMB Research Report

There are significant differences between the 1997/98 Asian financial crisis and the existing global financial crisis. 10 years ago, Malaysia together with the other Asian countries (but not the major Western economies) were hit by the financial meltdown; however, FDIs in Malaysia as well as the health of the country's export markets remained intact during that time. Now, Malaysia is not swamped by the global crisis as our banking and financial sectors, according to official sources, have improved through the lessons learnt and continue to be resilient. On the contrary, the major Western economies are facing financial trials of a magnitude not seen since the Great Depression of the previous century. However, it is premature for the country to rest in complacent self-assurance, as Malaysia is not totally insulated from this Western financial melt down. A slowdown or recession in the United States and Europe, who are our major trading partners, will definitely spell trouble for Malaysia, as the country is among the global exporters whose products feed the demand generated by the Western economies.

Most economists are of the opinion that the impact of this global financial crisis will be deep and prolonged. The external economic environment may remain dim and weak for quite some time. We cannot do much about boosting external demand, but the government's focus will be to pump-prime the economy through domestic sources. As such, wise and dynamic domestic spending and consumption could help our economy to stay alive and remain productive. If the government manages to ensure that the much anticipated multiplier effect is efficiently created and delivered in our own court, then we might have a better chance for a quick internal recovery that facilitates repositioning within a restored global economic environment later on.



We should be realistic but not overly pessimistic about the road ahead. According to an ancient Chinese saying, every crisis carries two elements, that of danger and opportunity. No matter how difficult the circumstances or how dangerous the situation, at the heart of every crisis lies a tremendous opportunity. Great rewards lie ahead for those who know the secret of finding the opportunities hidden within each crisis. **§ Lim Wei Seong**

C. PERFORMANCE OF PENANG'S MAJOR ECONOMIC SECTORS

AGRICULTURE

Agriculture Report for 2008

One of the major setbacks in the agricultural industry in Penang is the lack of fertile and economically viable land for agriculture. The scarcity of land, coupled with rivalry from other sectors such as manufacturing and property, have left the agriculture industry struggling in the present. However, innovative alternatives have been implemented to resolve this pressing problem, among which is the introduction of fungiculture to local farmers and agricultural entrepreneurs.

Fungiculture was first introduced in the Eighth Malaysian Plan (2001- 2005), along with the necessary technology, knowledge and skills to carry out the project commercially. Farmers were also educated on the proper practices and practical habits in this new growth sub-sector.

In the Ninth Malaysian Plan (2006-2010), the Penang Agriculture Department took a further step in the industry by introducing courses for the farmers concerning fungiculture. These courses were organized year-long, and are open to all practising and aspiring farmers and entrepreneurs interested in growing mushrooms.

The initiatives on fungiculture started when farmers were encouraged to grow 3,000 bags of mushrooms in sheds measuring 25 feet x 25 feet. The Department also offered hands-on training and technical advice to the farmers periodically.

Upon harvesting, such a setup of would be expected to generate about RM 5,400.00 in each spawning cycle or about RM 21,600 yearly. Expected gross revenue from fungiculture is estimated at RM 1,170.00 monthly.

Up until 2008, the number of fungiculture projects carried under the jurisdiction of the department is 24, and involves 26 different entrepreneurs. The division of projects according to districts in Penang is presented in the Table 14 below.

Table 14: Number of Fungiculture Projects, 2008

Item	District	No. of Projects	No. of Participants
1	Seberang Perai Utara	7	8
2	Seberang Perai Tengah	5	6
3	Seberang Perai Selatan	6	6
4	Island (North East & South West)	6	6
	Total	24	26



As the Department is committed to develop this alternative crop, successful fungiculture farmers were further encouraged to raise production by increasing the number of polybags handled in each shed. The Department also provides free training to the farmers to diversify their output, thus widening the market scope of mushroom products.

The other alternative project that the Department of Agriculture has been looking into is vermiculture, or the breeding of worms. Although this alternative may be new in the country, it has been widely adopted in countries such as Indonesia, Korea, Brazil and Australia.

There are 5 different types of worms which are suitable to be cultured in Malaysia, namely the Red Worm (*Lumbricus sp*), Tiger Worm (*Eisenia sp*), African Night Crawler (*Eudrilus eugeniae*), Blue Worm (*Perionyx excavatus*) and the Diplocardia earthworms. These worms are bred for compost production, organic waste elimination, medicinal purposes and for manufacturing cosmetic additives.

Generally, there are 2 different products that can be harvested in vermiculture, which are the biomass and the castings of the worms. The biomass is derived from the body of the worms and is normally converted to cosmetic additives, medicines and animal feed additives as the body is rich in protein. The worm castings (discharges) provide commercial potential as compost fertilizers.

Vermiculture started in Penang under the Eighth Malaysian Plan (2001-2005) with the setting up of the Stock Centre (Pusat Pengeluaran Benih) in the State Agriculture Headquarters in Cherok Tuk Kun, Bukit Mertajam. Vermiculture projects can be initiated as a small scale sub-industry using simple and small wooden racks or as a large scale commercial industry using cement tanks. The project was also introduced to paddy farmers by encouraging them to breed the worms using unwanted paddy stalks.

In 2008, there were 11 such projects running under the Department, involving 17 entrepreneurs. The break down of the projects based on districts in the State is summarized in Table 15.

Table 15: Vermiculture Projects in Penang, 2008

Item	District	No. of Projects	No. of Participants
1	Seberang Perai Utara	2	4
2	Seberang Perai Tengah	5	5
3	Seberang Perai Selatan	2	4
4	Island (North East / South West)	2	4
	Total	11	17

The global increase in the price of chemical fertilizers has resulted in greater awareness and incentive amongst farmers to produce their own plant fertilizers for use. Vermiculture is one of the best alternatives offered to farmers that not only generates cheap, organic fertilizers but also reduces the amount of waste generated by the commercial farms. Other benefits include diversification of farm produce and a higher income level for the farmers in Penang.



Fresh Agro-based Market

In 2008, FAMA continues to provide aid to small-medium agro-based industry entrepreneurs in terms of product presentation and also in the area of upgrading food safety and marketing strategies.

The objective of this project is to improve product image in terms of appropriate packaging and labeling for the market, to increase sales by preparing appropriate promotional materials and to encourage compliance with the Food Act, 1983 and Food Regulations, 1985. In order to achieve the above goals, FAMA provides advisory services to entrepreneurs to aid them in label design, packaging, product verification and labeling compliance.

The effort that was introduced in 2006 to promote the fresh fruit market concept is the Fresh Fruit Stalls (Gerai Buah-Buahan Segar - GBBS) Project which now has a total of 19 projects. They are located in all districts with SPU having the most number of projects followed by SPT and BD districts on the island.

Table 16: Penang - Number of GBBS Projects by District, 2008

DISTRICT	NUMBER OF STALLS
Northern District (SPU)	9
Central District (SPT)	4
Southern District (SPS)	1
Northeast District (TL)	1
Southwest District (BD)	4

Source: FAMA Penang, 2008

Both seasonal and non-seasonal local fruits are sourced from within Penang and also other states such as Perak, Kelantan, Johor and Selangor, etc. Penang is a net consumer state and in-state fruit production is relatively low (about 20%). The local nonseasonal fruits are pineapples and bananas and the seasonal fruits are mostly durians and rambutans. These products continue to enjoy good market demand which seems undeterred by the economic uncertainties globally.

In addition to the above pasar tani, FAMA has started a mega pasar tani in Tasek Gelugor and another one in Balik Pulau. These are bigger versions of the normal pasar tani and require larger areas involving more participants.

Table 17: Pasar Tani (Farmers' Market)

No.	Name of Pasar Tani	Address	Operation Days	Time	No. of Participants	Year of Commencement
1	Pasar Tani Balik Pulau	Kompleks Pasar Awam, Balik Pulau, Penang	Sunday	7.00 am – 1.00 pm	66	1985 (moved to new site on 16 Dec 2007)
2	Pasar Tani Mega Tasek Gelugor	Jalan Pmtg Manggis, Tasek Gelugor, SPU, Penang	Sunday	7.00 am – 1.00 pm	105	1986
3	Pasar Tani Taman Guar Perahu	Taman Guar Perahu, Bukit Mertajam, SPT, Penang	Wednesday	4.30 pm – 10.00 pm	33	1993
4	Pasar Tani Harian Pokok Sena	PPK Pokok Sena, simpang Keling, Tasek Geugor, SPU, Penang	Every Day except Wednesday	4.30 pm – 10.00 pm	51	2001
5	Pasar Tani Bayan Lepas	Tapak Pasar Malam, Jalan Makhamah, Bayan Lepas, Penang	Saturday	7.00 am – 1.00 pm	30	2008

Source: FAMA Penang, 2008

Processed Agro-based Markets

FAMA also provides advisory services to entrepreneurs involved in small processed-food industries such as *maruku*, *putu beras*, *putu kacang*, *kerepek*, *bahulu*, *roti*, biscuits, cakes, sauces, frozen food, spices, cordials, *pekasam*, jelly, yoghurt, etc. The services aim to raise the standards of local entrepreneurs and promote these local products successfully through a good and systematic marketing approach. The first outlet for processed products is the Dato' Kailan Complex, Kepala Batas which was set up in October 2006. In this complex, as many as 438 products involving 95 entrepreneurs have been gathered and displayed.

To further promote this effort, a number of agrobazaars has been set up in hypermarkets such as Carrefour, TESCO and JUSCO. Presently, there is one agrobazaar on the Island and two on the mainland of Penang state. The agrobazaar is conceived as a business adopting a medium scale retail concept to market PKS products. Business operation is conducted in strategic locations such as rest areas along highways or shop lots available in hypermarkets.

The main purposes of developing an agrobazaar network are to develop a new FAMA retail outlet format, to provide new marketing opportunities for basic agriculture produce and to expose and train entrepreneurs in the retail field.

In Penang, there are currently 120 entrepreneurs involved and a cumulative value of RM178,835.48 has been transacted up till September 2008 (Table 18). The sales at the agrobazaars have been very encouraging especially during festive seasons like the Hari Raya period.

Table 18: No. of Entrepreneurs in Penang AgroBazaar Sector, Jan-Sep 2008

No	AgroBazaar	Date of Operation	No. of Products	No. of Entrepreneurs	Value (RM) till September 2008
1.	Carrefour Seberang Jaya	1 May 2008	83	44	123,412.59
2.	TESCO Jelutong	1 June 2008	54	33	42,684.01
3.	JUSCO Bandar PERDA	22 Aug 2008	103	43	12,738.88

Source: FAMA Penang, 2008.

The outlook for agrobased products continues to be optimistic despite the recent global economic downturn. The demand for food products remains high and prices are not expected to fluctuate much. The Ministry of Agriculture has also been providing incentives for entrepreneurs to increase production and to reduce the food import bill.



Livestock Rearing Sub-sector

The livestock industry forms an important component in the Penang state economy, contributing some RM 517.13 million in 2007, out of which the poultry and pig sectors combined contributed RM 292.2 and RM106.11 million respectively. Thus, poultry and pig farming is a very important subcomponent in the Penang state economy. The next highest money earner would be the eggs subcomponent valued at RM87.32 million. However, with urban sprawl encroaching into former rural animal husbandry areas, areas for production are continually shrinking.

Social and environmental issues are becoming increasingly more pressing even as the general public becomes more environmentally concerned. Land scarce Penang has little pastures for large animal farming and thus must continue to promote small livestock farming. Small livestock farming is a high value venture that requires less space, thus maximizing and optimizing the use of currently available space.

In order to achieve this objective, the Penang Department of Veterinary Services (PDVS) made a decision to encourage farmers to adopt the 'Closed House' system for the rearing of chicken and pigs in order to manage the farms in a more organized and well-controlled manner to overcome environmental and other production related problems.

Measures were taken to curb odour and pests (especially flies), stop the discharge of effluents into rivers and waterways, and meet environmental standards stipulated by the Department of Environment. Complaints from residents have been received regarding odour and flies from all districts in the State.

One such method involves the use of the EM (Effective Microorganisms) biotechnology which is currently promoted by the Veterinary Department for this purpose. The first phase of these trials involved 13 integrator chicken farms, where the EM was used on 1 February 2008 at 5 chicken farms in Paya Keladi, SPU for 36 days. The feedback from both famers and surrounding residents were very satisfactory. Phase 2 involved 13 farms in SPU, SPT and SPS. The EM was applied to the drinking water, feed and droppings. EM has been applied to the farm types displayed in the following table:

Table 19: Type of Farms that Applied Effective Microorganisms

Type of Farms	No. of Farms
Chicken	8
Pig	6
Cattle	1
Goat	1
Total	16

Source: Penang Dept of Veterinary Services, 2008



The trials have proven to be successful in reducing odour problems as well as controlling the population of flies around the farms.

The estimate costs for a [30'x250' x 3] sized chicken hatch using 80 litres of EM for a 2-ton tank at RM2.00 is merely RM120.00.

The application for pig farms differs in that EM mudballs are being used for every 16 sq ft of effluent treatment pond. The estimated cost for a 20'x20' pond using 45 mudballs (costing 60 sen) each is approximately RM27.00. This technology has been used at Kg Selamat, Kg Pinang and Kg Pongsu Seribu in SPU. The advantages for the use of EM in pig farms include reduced management costs, increased productivity, lower livestock mortality, cleaner environment, reduced annoyance factors to residential areas, lower chemical usage (such as vaccines) and also compliance with the standards of Good Animal Husbandry Practices (GAHP).

EM biotechnology has been applied at chicken farms at regular intervals near residential areas, schools, mosques and commercial premises, highly populated areas and areas where complaints have been received. The EM formula is actually prepared using 30 tons of EM-1 solution, 30 of molasses or brown sugar, salt and anti-chlorine.

The conclusion to the trials showed that EM applications have also been found to reduce the mortality rate of chicken as well as raise the Feed Conversion Rate (FCR). It improves the overall environment, reduces odour and controls flies within the target zone.

For the Year 2009, the Penang Department of Veterinary Services (PDVS) intends to become the centre for EM production and treatment in Penang, gradually expanding the use of EM to all farms in Penang and establishing EM as a project under the NCER. Plans are also being drawn up to establish an EM Activated Solution (EMAS) at the area behind the State Veterinary Services office at Bukit Tengah in Penang. The capacity for production would be about 360 tons monthly, and this supply will meet the needs of 40% of the farms in Penang. The selling price of EMAS is about RM3.25 per litre and the EMAS mudball of 250 g is priced at RM1.20 each. Full operation is expected to commence in July 2009 if the RM1 million funding for this project is received.

The Penang Veterinary Services Department is also looking into upgrading Turkey rearing activities which are currently managed in a traditional, small scale way. The subsector lacks effective biosecurity measures and is plagued by low quality stocks due to inbreeding, and as such is generally unable to meet the high market demands in Penang.

The turkey population in Penang is about 6198 birds spread throughout DBD, SPU, SPT and SPS involving 38 rearers.

Table 20: Turkey Farmer in Penang, 2008

District	No. of Turkey Farmers	No. of Animals
South-western District (DBD)	12	1751
Northern District (SPU)	11	2910
Central District (SPT)	9	895
Southern District (SPS)	6	642
Total	38	6198

The main aim of the Department is the transformation of turkey rearing from a traditional small scale activity to a commercially-viable and thriving niche within the State's livestock subsector.



This would involve having a controlled rearing environment with a waste treatment system, closed housing and biosecurity features that would ensure good feed conversion rates and compliance with GAHP standards.

The potential customers for turkey meat are the 200 over Nasi Kandar restaurants, Hypermarkets such as Carrefour, TESCO, Giant and the Penang hotel and hospitality industry. Other than this, the demand for turkey meat is expected to rise during festive seasons such as Christmas, Deepavali, Hari Raya, etc. Turkey is also consumed by people of all ethnicities and religions, and its high meat content (63.4%) is suitable for downstream activities such as the production of burgers, frankfurters, sausages, cold cuts, etc. Demand is estimated to exceed 6353 birds monthly and 78,240 birds annually.

In order to achieve a supply of 500 birds a month, breeder stocks of 1,100 birds (1,000 female and 100 male birds) need to be imported from Spain. These are expected to produce 500-600 chicks per month. This means a supply of 120 birds for each of the 5 broiler farms. Each farm will be able to supply up to 100 birds per month for slaughter.

The overall costs for this effort is estimated at around RM4.5 million, which is inclusive of the cost of building and equipment, breeder stocks, feed, grower/broiler buildings, holding yard and slaughter house.

Birds will take up to 9 months to be ready for the market at a weight of 8kg each (assuming a livability index of 95%), and the estimated profit per bird is RM57.65 nett.

The Penang Veterinary Services Department hopes that this new venture will be successfully implemented to make Penang a major producer of turkeys.

Another revolutionary effort that the Penang Veterinary Services Department has embarked on in 2008 is the breeding of leeches (*Hirudo medicinalis*). The species takes up to 6 months to mature and produce 300-500 young each time. They are often reared in cement troughs (10'x15') in chlorine free water at a pH of 4.5-8.0. Aquatic plants such as kangkung, kiambang and duckweed, etc are often introduced into the troughs. The leeches feed mainly on zooplankton and phytoplankton. However, they need blood as a protein source to reproduce. Eels are usually used for this purpose. Other alternatives include catfish, cattle blood jelly, liver and chicken liver. These are fed to the leeches once in every two weeks. EM may also be applied at the rate of once or twice weekly.

There are a few integrators for this industry in Malaysia such as Azraagrotec, Jaha Sinergi Tani and Arowana Vision. Leech products presently are used for traditional oils and creams for men. They are also sold as stock at about RM1-RM3 for each leech. The use of *hirudin* (the excretion from leech saliva) for treating cardiovascular diseases is also at its infancy and the high costs and long periods taken for recognition by the relevant agencies are major issues that are faced by this industry.

The demand for export is high but the volume of production is limited and inconsistent. There is presently no coordinating body for breeders and exporters to consistently meet market demand trends.

There many potential uses for leeches. Leeches are mainly used for medical reasons and in beauty regimens. In the US, the FDA has approved leech therapy in the medical field. European countries as well as the United Kingdom and Turkey are keenly interested in this therapy. The leech extracts are said to tighten the skin and improve blood circulation.

Currently, research is being undertaken by Technology Park Malaysia to extract the saliva of the leeches as a natural anesthetic for medical uses.

Dr Zaleha Kassim, senior lecturer with the Tropical Aquaculture Institute of University Malaysia Terengganu, believes that breeding leeches for medicinal purposes has commercial potential and both government and the aquaculture sector should be investigating the economics of demand for the product.²⁰

They are also used in the production of cosmetics in countries such as Hong Kong, China, Thailand and South Korea.

THE STAR reported that a farm in Penaga, North Seberang Prai, breeds the big variety which the Malays call lintah, seven to 12cm long when fully mature and up to 30cm when stretched.²¹ A single, mature leech can command prices ranging from RM1.80-RM2 while a juvenile can be sold for 50 sen to RM1. Six types of indigenous leeches are found in Malaysia.

The present demand for leeches is high, especially in the export market. The demand in China is estimated at 100 metric tons per month. The global demand for leeches is estimated at 500 metric tons per month. Leech products in the US are primarily used for medicinal purposes and cosmetics.

As at December 2007, there are 30 breeders and this number has increased further in 2008. The PDVS acts a coordinator for this industry to build up a network among the breeders, integrators and exporters. The department also conducts courses, workshops, training and visits to project sites.

The initiatives implemented by the PDVS will create new industries for Penang and will enable livestock farmers to move away from the traditional markets and venture into new areas that have vast potential for exploration, R&D and export potential. These new ventures involve small animals and do not require vast land spaces for cultivation. On the other hand, they will enable farmers to optimize and maximize their land through intensive cultivation techniques. The outlook for animal husbandry remains positive despite the economic crisis as primary food production remains an important activity as outlined in the 9th Malaysia Plan.

Fisheries Sub-sector

The year 2008 saw an increase in activities carried out by the Department of Fisheries (DOF), Penang Branch. One of the follow up projects from the previous year is the Bumi Hijau (Green Earth) campaign. This campaign is an initiative launched by the Ministry of Agriculture to encourage individuals in cities and rural areas to be involved in the agriculture and aquaculture industries.

²⁰The Fishsite News Desk, 25 March 2008. Website: <http://www.thefishsite.com/fishnews/6525/leeching-into-commercial-production>

²¹STAR, (Metro - Friday April 11, 2008); Something Good About Leeches

In 2008, 82 new participants registered with the DOF under this campaign. The participants were then provided with Polyethylene tanks, fingerlings, formulated fish feed as well as Effective Microorganism solution as initial stock to begin this project. The participants will also undergo training organized by the DOF to enable them to carry out and gain maximum results from the project effectively.

Apart from that, the DOF has also undertaken initiatives to rehabilitate abandoned ponds in the state to revive inland aquaculture. 13 abandoned ponds in areas such as Kampung Lebu Banting, Tasek Gelugor have been identified and rehabilitated for such a purpose. Each rehabilitated pond is expected to generate about 10,000 to 12,000 fishes for production. Apart from rehabilitation, potential participants were identified and supplemented with stock and formulated feed to carry out the project.

The Department is also actively involved in providing support to entrepreneurs to establish and manage private hatcheries. 14 private hatcheries in the state have benefitted from the department's initiatives such as supplying mature stocks of fish, crustaceans and bivalves for spawning, and mechanical support such as energy generators, air pumps and blowers. Besides that, supplementary needs such as formulated feed, hormones, artemia (feed for fry), tanks and vitamins were also provided to these private entrepreneurs to set up their hatcheries.



Apart from bringing in new faces into the fisheries sector, the Department also did not neglect the welfare of the present players in the industry. Incentives were paid to registered aquaculture entrepreneurs via AgroBank. The incentives were banked into the accounts of the entrepreneurs once they have been verified by the district and state level officers. Up to date, 347 entrepreneurs have registered with the department, and 19 have received the desired payment. The payment scheme is based on the following category and the species bred:

Table 21: Payment Scheme by Category and Species Bred

	Small Breeders (RM/mt)	Semi-Commercial Breeders (RM/mt)	Commercial Breeders (RM/mt)
Marine Prawns/ Lobsters	1,5600.00	780.00	520.00
Marine Fishes	1,650.00	825.00	550.00
Freshwater Fishes	570.00	285.00	190.00
Bivalves	RM 100/mt		

Source: Department of Fisheries, 2008

The 4.2 hectares in 'Taman Kekal Pengeluaran Makanan' (TKPM) in Juru allocated to the Department is also seeing progress as ground works towards building a holistic Ornamental Fish facility. This facility, which incorporates hatcheries, collection depots and distribution centres has already been undertaken by a consortium, and will be built up as the largest trade facility for Ornamental Fishes in the region.

In the cultural context, the DOF has also undertaken various proactive programs to reintroduce the importance of fisheries and aquaculture in modern day society. In April, the Department, together with MPPP, launched a promotion on making freshwater fishes a top choice in cuisines. The Tilapia (*Oreochromis sp*) was chosen and highlighted in the event. A similar event will be held in the month of December, featuring the catfish (*Clarias sp*).

Capacity building initiatives have also been taken to educate and train interested individuals in the aquaculture sectors. In 2008, four courses on rearing catfish in canvas tanks were conducted by the Department to potential groups. Students from SM Al-Mashoor (L) were also sent to MAHA 2008 to participate in the aquascape competition, hence instilling the passion and knowledge of aquaculture to the younger generation. In November, the Department will showcase and promote ornamental fishes in the Hari Peladang, Petani, Penternak dan Nelayan Negeri Pulau Pinang expo.

The Department of Fisheries should be lauded for their concerted effort to promote and establish the importance of aquaculture as a thriving sub-sector of the economy, especially in Penang. This will pave the way for the creation of new industries as well as the development of greater R & D opportunities in the State.

Development of Marine Fisheries

Most of the 2008 development efforts in marine fisheries were focused on inshore fishing, deep sea fishing, product development and diversifying the sources of income of local fishermen. According to the Penang Department of Fisheries, it was estimated that 29,308 tonnes of marine products worth RM 159.82 mil were docked up to September 2008.

In 2008, an amount of RM 1.1 mil was utilized by the department to develop programs that focus on capacity building, as well as to upgrade the sources of income of fishermen.

The activities of the department in marine fisheries are outlined as follows:

Technology Transfer Program (RM 500,00)

Various training programs were conducted *in situ* to fishermen involved in product development in order to produce higher quality output and to increase the marketability of marine products offered. 75 fishermen have undergone such courses organized by and held in the Department of Fisheries in Gelugor.

Besides that, 77 fishermen were also involved in other training programs such as on-site engine repair courses, constructions of fibreglass vessels, technology competency as well as field trips to exchange knowledge and technology with the relevant regional departments.

Development of International Tuna Docking Centre (RM 230,000)

The Tuna Business Development Centre (TBDC) in Batu Maung was further developed and enhanced in order to accommodate the docking capacity, and as a referral centre for fishing in international waters.

Development of Artificial Corals (RM 50,000)

Confiscated vessels were sunk near Pulau Rimau, off Penang island, to allow corals to grow and hence increase the marine resources found in these waters.

Development and Management of Recreational Artificial Corals (RM 100,000)

Programs and promotional activities to increase awareness of the importance of coral reefs, especially as marine nurseries, were conducted through the year involving various target groups. Further efforts to educate and provide information are still ongoing.

Surveillance and Protection of Inshore Fishermen (RM 120,000)

A Coastal Surveillance Centre was built in Telok Bahang to provide protection and surveillance to coastal and inshore fishermen, as well as to provide assistance to needy fishermen.

Management and Conservation of Turtles (RM 105,000)

The Turtle Hatchery in Pantai Kerachut was improved to increase the hatching rate of turtles found in Penang, and also to provide a suitable coastline for turtle landings. The centre was also improved to increase awareness related to the management and conservation of turtles. Educational activities, publicity efforts to raise public awareness, repurchase of turtle eggs as well as the employment of workers for protecting the target beach zones were all implemented under this scheme.



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The above activities were conducted with the intention to further realize the potential of Penang's marine fisheries and produce. It is also meant to develop higher quality marine products, and to increase the initiatives and entrepreneurship of local fishermen. Workshops were also conducted with the objective of developing a more competent, resilient and active fishermen community in Penang. **§ Ben Wismen**

The 2009 Outlook for the Agriculture Sector

The 2009 outlook for the Agriculture sub-sectors remains positive for primary producers. The further intensification of primary food cultivation will increase food crops as well as marine and animal husbandry products.

Programmes initiated by the Department of Agriculture like the TPKM has started bearing fruit since its inception in 2006. The Ministry of Agriculture has been providing incentives to primary producers who are very professional and commercial in their operations. This is to ensure that they are able to produce quality products that meet stringent market demands locally and for export purposes.

Several new approaches taken by the Department of Veterinary Services are in line with efforts to further modernize poultry and swine rearing under a closed farming system policy. Introduction of the EM technology which is compliant with green environmental guidelines will continue to ensure Penangites a supply of cleaner and healthier veterinary products. This approach allows for sustainable production with the correct environmental conditions for rearing livestock. The bold new ventures such as breeding leeches and turkey farming will indeed help farmers to maximize their land potential as they only require small areas for cultivation.

FAMA's initiative to start new marketing strategies to further modernize and strengthen the marketing infrastructure and network augurs well for primary food producers. Efforts like the Fresh Fruit Stalls (Gerai Buah-Buahan Segar -GBBS) have provided an avenue for small time retailers to expand their marketing channels like the pasar tanis, and mega pasar tanis. FAMA has reported that these ventures continue to enjoy good sales and are popular with the general public, with no significant problems or barriers encountered in 2008. The recent introduction of agrobazaars to further boost domestic processed food production in selected supermarkets has also been successful, and has opened up new marketing channels and retail outlets for the cottage industry sector producing snack food, marine products, etc. FAMA continues to proactively planned ensure a steady supply of agriculture produce to the consumers not only in Penang but also in the region.

The shift in crops from traditional farm yield to fungi and vermiculture marks a new milestone for the year 2008, and can be further developed and promoted in 2009. These new products harbour a huge potential in the market, and there may also be scope to break into other markets such as cosmetics and medicine. With concerted efforts implemented by the Department of Agriculture, small and medium scale farmers are provided with an alternative to supplement their crops, as well as to diversify their end products, making them more competitive and resilient.

The Penang Fisheries Department has maintained its performance in 2008, and continuous efforts by the department will see better prospects in 2009. Fisherfolk benefit the most, as research and development efforts are conducted by the department and academics to increase the yield in fisheries. Better technology also provides for the sustainability of the agricultural harvest, encouraging growth and development within the sector.

Besides the conventional marine and freshwater aquaculture, the holistic development of an ornamental fish facility will be able to up the ante of Penang's aquaculture potential in the domestic produce sector. When the ornamental fish facility in Penang is ready, it will open up better prospects, increase human capital and tap into a large market locally and globally.

In 2008, these departments also realized the importance of capacity building and this has led to various workshops, exhibition and programs being introduced to increase the potential of players in the industry. The departments have also broken out of their conventional role by having exhibitions and events in malls to reach out to a wider consumer base. When all these efforts come into place, it is without doubt that the agricultural sector is slowly regaining its strength and importance in the local economy.

Agriculture remains as the third engine of growth in the 9th Malaysia Plan and efforts are underway by the different agriculture agencies and departments in Penang to transform traditional farmers, fisherfolk and livestock rearers into a thriving 'commercial business' sector, and not merely a small player involved in 'subsistence' or 'self-sufficiency' activities. Penang has continued to expand into the area of primary food production, with great potential to build on the strength of its food processing experience and expertise. Penang state's GDP can also be enhanced with the further development of the agro-based industries.

The new sources of growth for Penang's agriculture sector are worth exploring to further enhance and value add to the existing activities. Appropriate technologies and new approaches to further reenergize the agro-based sector would indeed open up new markets and opportunities for farmers, livestock growers, fisher folk and manufacturers in Penang. **§ Khor Hung Teik & Ben Wismen**

MANUFACTURING

Export Performance

Manufactured exports, which contributed almost 75 per cent to Malaysia's total exports in Jan-Sept 2008, grew by 9.1 per cent compared to the corresponding period in 2007 (Table 22). Growth of manufactured exports in the third quarter of 2008 was 5.5 per cent. The impressive growth of manufactured exports is mainly due to significant increases in exports of petroleum products, processed food and non-metallic mineral products.

From Penang's perspective, however, the export performance of the Electronics and Electrical (EE) sector is the most important. The sector contributed 56 per cent to total manufactured exports in the country for the period Jan-Sept 2008. No data are available on EE exports from Penang, but it can reasonably be assumed that the proportion of EE exports to total manufactured exports in Penang is higher than its national contribution of 56 per cent. In this regard, the performance of the EE industries does not look promising. Growth in EE exports was marginal, at only 0.9 per cent in the period Jan-Sept 2008. In fact, there was negative growth in the two most important industries in the EE sector, namely the semi-conductors, and electronic equipment and parts industries, which experienced declines of 3.6 and 2.5 per cent respectively. These two industries form the backbone of the manufacturing sector in the state. The prospect of EE exports looks bleak, in view of the fact that the full impact of the recession in the US, EU and Japan on Malaysia's exports is yet to be felt in the first nine months of 2008.



Despite the weak performance of the two important industries, the positive growth rate of the EE sector noted in Jan-Sept 2008 may be attributed to significant increases in exports of electrical products and appliances. However, there was a negative growth of 6.4 per cent in exports of the machinery and equipment industries. Penang has a large number of local small and medium-sized firms engaged in the production of process machinery and equipment servicing the MNCs in the EE sector. Thus, the negative growth rate in the industry is not unexpected considering the weak performance of the EE industries, especially the semi conductor industry.

The processed food industry has become an important contributor to manufacturing in Penang after the state began to exploit its advantage and ventured into becoming an important player in supplying *halal* processed food in the world market. Penang's *halal* food products are mainly exported to the Middle East, EU, USA, Asean countries and Australia. Processed food exports experienced a significant growth of 51.2 per cent. In recent years, the state has made several attempts in trying to widen its manufacturing base, promote diversification and reduce its reliance on the EE industries. The *halal* food industry has great potential and the state should spare no effort in promoting the industry.

The exports of textiles, clothing and footwear increased by 5.1 per cent for the period Jan-Sept 2008 compared to Jan-Sept 2007. This industry used to be a very important contributor to growth to both the manufacturing sector in Malaysia as well as Penang, but due to intense competition from low-cost producers from China, Vietnam, India, Bangladesh and other countries, as well as the removal of quotas in 2005, this industry has lost its significance in Penang's manufacturing sector on the whole. Its contribution to Penang's manufacturing growth is expected to be further eroded in the coming years.

The exports of transport equipment increased by 18 per cent for the first nine months of 2008 compared to the corresponding period in 2007. This is an important sector for Penang as it is the manufacturing base for several MNCs engaged in the production of automotive components.

Table 22: Malaysia's Gross Exports by Manufactured Goods, Jan-Sept 2008

Sectors and Industries	Jan-Sept 2007 (RM billion)	Jan-Sept 2008 (RM billion)	% Change
Manufactured Goods	349.7	381.4	9.1
Electronics & Electrical Products	212.9	214.9	0.9
<i>Semi-Conductors</i>	72.8	70.2	-3.6
<i>Electronic Equipment & Parts</i>	84.6	82.5	-2.5
Transport Equipment	6.1	7.2	18.0
Food	8.2	12.4	51.2
Beverages & Tobacco	1.5	1.8	20.0
Textiles, Clothing & Footwear	7.9	8.3	5.1
Wood Products	7.4	7.5	1.4
Rubber Products	7.4	9.4	27.0
Paper & Pulp Products	1.8	2.1	16.7
Petroleum Products	15.1	25.9	71.5
Chemical & Chemical Products	27.4	32.6	19.0
Non-metallic Mineral Products	2.8	3.8	35.7
Manufactures of Metal	19.5	22.9	17.4
Optical & Scientific Equipment	10.3	11.2	8.7
Toys & Sporting Goods	4.5	5.2	15.6
Furniture & Parts	6.5	6.6	1.5
Other Manufactures	9.4	8.9	-5.3
Total Gross Exports	441.7	512.2	16.0

Source: Computed from trade data, Department of Statistics, Malaysia

Another industry which has a significant presence in Penang is the optical and scientific equipment industry. The state is a major producer and exporter of medical instruments in the country. Exports from the industry rose by 8.7 per cent during Jan-Sept 2008, compared to the corresponding period in 2007.

Production

The Malaysian Industrial Production Index (IPI) in September 2008 contracted by 1.7 per cent as compared to September 2007 due to decreases in all the three division indices of Mining (4.8%), Electricity (2.2%) and Manufacturing (0.8%). However, the overall IPI rose by 3.3 per cent year-on-year for the first nine months of 2008.

The IPI for the manufacturing sector performed better than the overall IPI, increasing by 3.9 per cent for January-September 2008 compared to the corresponding period in 2007. The increase is mainly due to significant increases of more than 20 per cent respectively in a few main industries, namely, footwear, TV and radio receivers, motor vehicles, parts and accessories of motor vehicles, basic precious and non-ferrous metals, and transport equipment n.e.c.

Within the EE sector, output for the two major industries of integrated circuits and semiconductors declined for the period Jan-Sept 2008 compared to the corresponding period in 2007. The former industry suffered a decline from 25.9 million units in Jan-Sept 2007 to 24.1 million units produced in Jan-Sept 2008, a fall of 6.9 per cent. The latter saw a decline of 3 per cent, falling from the production level of 16.6 million units to 16.1 million units in the two periods respectively.

Another important industry, electronic transistors, however, increased its output from 22.8 million units to 25.2 million units, an increase of 10.9 per cent. These industries are major players in Penang's manufacturing sector. Considering the fact that there are already declines in production even before the deepest impact of recession in the developed economies begins to take effect, the outlook for the sector does not look bright. The IPI for manufacturing is thus expected to fall further in the coming months especially for export-oriented industries such as the EE industries.

Productivity

The productivity indicators for the Malaysian manufacturing sector in the second quarter of 2008 look encouraging. All three indicators (Table 23) of sales value per employee, labour cost per employee and unit labour cost improved over the last quarter. In particular, productivity measured by sales value per employee increased significantly by 7.1 per cent. Among the manufacturing sub-sectors, high productivity growths were recorded in Textiles and Apparel at 25.1 per cent, followed by Iron and Steel at 20.4 per cent and Machinery and Equipment at 14.1 per cent.



Although the EE sub-sector recorded a modest productivity growth of 0.41 per cent (the second lowest growth among the thirteen sub-sectors classified), the two important industries, namely computers and computer peripherals, and semi-conductor devices suffered drastic productivity losses of 3.6 and 4.9 per cent respectively. In fact, productivity in the two stated industries began their downward trend since 2005.²²

The slow productivity growth in the EE sub-sector is a cause for concern especially for Penang since it has a concentration of EE industries. For Malaysia, the EE sub-sector contributed 38.3 per cent to the value added for the whole manufacturing sector in 2007.²³ For Penang, its contribution to overall value added is evidently much higher since the manufacturing sector in Penang is more narrowly-based compared to the country as a whole.

As measured by unit labour cost, labour cost competitiveness of the manufacturing sector improved considerably by 8.3 per cent during the second quarter of 2008. All sub-sectors showed an improvement in labour cost competitiveness except for Transport and Equipment and Professional and Scientific Equipment. The EE sub-sector again performed below the manufacturing sector average. While labour cost competitiveness in the computers and computer peripherals industries improved by 1.3 per cent in the quarter, it deteriorated by 5.2 per cent in the semi-conductor devices industry. These two industries have shown declining labour cost competitiveness since 2006, with the former industry suffering a drastic loss of 41.5 per cent in 2007 and the latter a loss of 16.4 per cent in 2006.²⁴

The less-than-impressive productivity growth for the EE sub-sector in general and the two industries in particular, has an adverse effect on Penang's market competitiveness as its economic growth is heavily dependent on the performance of this sub-sector. To remain competitive, productivity has to stay ahead of wages. Fortunately, in this respect, productivity in terms of sales value per employee is still ahead of wages, measured in terms of labour cost per employee. Productivity growth in the second quarter of 2008 was recorded at 0.41 per cent while labour cost per employee actually decreased by 1.8 per cent.

²²Computed from MPC website: <http://bpap.mpc.gov.my/rismism/mmsprowthdos.aspx>

²³Malaysia Productivity Corporation, Annual productivity Report 2007

²⁴Computed from MPC website: <http://bpap.mpc.gov.my/rismism/mmsprowthdos.aspx>

Table 23: Productivity Indicators for Malaysian Manufacturing Industries, Quarter 2, 2008 (% change)

Sector	Sales value per employee	Labour cost per employee	Unit labour cost
<i>Overall Manufacturing</i>	7.07	-1.73	-8.33
Textiles & Apparel	25.10	3.34	-17.33
Iron & Steel	20.38	-1.53	-18.18
Machinery & Equipment	14.10	-6.46	-18.00
Non-metallic Mineral Products	14.02	1.07	-11.22
Chemical	12.42	-4.38	-14.83
Plastic Products	9.38	-4.59	-12.71
Processed Food & Beverages	8.86	-2.09	-10.17
Wood & Wood Products	8.56	0.00	-8.13
Fabricated metal products	6.42	-0.19	-6.20
Rubber product	1.65	-1.56	-3.19
Transport Equipment	0.50	2.87	2.33
Electronics & Electrical Products	0.41	-1.76	-2.21
Professional & Scientific Equipment	-28.86	-1.03	39.17

Source: MPC, <http://www.mpc.gov.my/files/Website2ndQtr08.pdf>

Note: Change (%) is change over the preceding quarter.

Manufacturing Investment

Total investments (value proposed in approved projects by MIDA) in Malaysia for the period January-September 2008 amounted to RM 53.9 billion. Foreign investment totaled RM 39.5 billion, which are mainly in the basic metal products and EE industries. Among the states, Penang contributed the third largest share of total investments, amounting to RM 8 billion (or 14.8 %). Compared to the corresponding period in 2007, this is a tremendous increase of 213 per cent. In terms of foreign investments, however, Penang's share of total foreign investments lagged behind four other states as it contributed only RM 3.2 billion (or 8.1 %). The total number of projects approved in Penang during this period was 106, creating a potential employment of 16,130. This compared favourably to the corresponding period in 2007 when 105 projects were approved, with potential employment reaching 7,255.

As in previous years, foreign investments in the EE sub-sector were significant in Penang. More than 55 per cent (or RM 1.77 billion) of foreign investments in the state are in this sub-sector (Table 24). The state also accounted for almost 14 per cent of foreign investment in the EE sub-sector in the country for this period (Jan-Sept 2007: 8.6 %).

Foreign investments are also significant in the food and transport equipment sub-sectors in Penang. Of total foreign investments of RM 1.3 billion in the food manufacturing sub-sector, almost 42 per cent are located in Penang. Similarly, more than 56 per cent of foreign investors in transport equipment manufacturing chose Penang as their manufacturing base. Penang is also the preferred location for foreign investors in the export-oriented industry of scientific and measuring equipment, although the magnitude of foreign investment is comparatively lower than other export-oriented industries such as EE and transport equipment.

Table 24: Approved manufacturing projects in Penang by industry, Jan-Sept 2008

Industry	No. of projects	Potential Employment	Domestic Investment (RM mil)	Foreign Investment (RM mil)	Total Investment (RM mil)
Food Manufacturing	4	426	23.62	522.38	546.00
Textiles & Textile Products	4	1,649	0	232.16	232.16
Wood & Wood Products	1	148	17.27	0	17.27
Furniture & Fixtures	5	252	5.75	1.40	7.15
Paper, Printing & Publishing	4	231	30.44	0.48	30.92
Chemicals & Chemical Products	4	443	7.17	110.74	117.91
Petroleum Products (Incl. Petrochemicals)	1	118	46.74	0	46.74
Rubber Products	1	189	0	41.20	41.20
Plastic Products	3	46	0.02	0.01	0.03
Basic Metal Products	11	2,288	3,284.71	7.08	3,291.79
Fabricated Metal Products	11	385	20.75	8.43	29.18
Machinery Manufacturing	12	661	130.18	130.85	261.03
Electronics & Electrical Products	32	5,817	60.14	1,770.67	1,830.81
Transport Equipment	4	2,787	1,141.57	281.63	1,423.20
Scientific & Measuring Equipment	6	413	12.29	63.55	75.84
Miscellaneous	3	277	9.55	41.97	51.52
TOTAL	106	16,130	4,790.20	3,212.55	8,002.75



Source: Malaysian Industrial Development Authority (MIDA)

Foreign investments are also significant in the food and transport equipment sub-sectors in Penang. Of total foreign investments of RM 1.3 billion in the food manufacturing sub-sector, almost 42 per cent are located in Penang. Similarly, more than 56 per cent of foreign investors in transport equipment manufacturing chose Penang as their manufacturing base. Penang is also the preferred location for foreign investors in the export-oriented industry of scientific and measuring equipment, although the magnitude of foreign investment is comparatively lower than other export-oriented industries such as EE and transport equipment.

Consistent with the corresponding period last year, domestic investments in Penang surpassed foreign investments, contributing almost 60 per cent to total investments. These investments concentrated in the basic metal, transport equipment and machinery manufacturing sub-sectors which provide the essential supporting and ancillary services to the other industries.

In terms of foreign investments by countries of origin, Japan has overtaken the United States as the leading investor in Penang. For the period Jan-Sept 2008, nine Japanese projects were approved with a total investment of RM 1.52 billion, contributing 47.5 per cent of foreign investment in the state (Table 25). This is followed by Singapore and the United States, with each country contributing almost 20 per cent to foreign investments in Penang.

Table 25: Projects approved with foreign participation in Penang, Jan-Sept 2008

Country	No. of approved projects	Foreign Investment	Share (%)
		(RM mil)	
Australia	1	1.43	0.04
France	2	4.65	0.14
Netherlands	3	42.00	1.31
India	1	1.92	0.06
Japan	9	1,527.70	47.55
Korea, Rep.	3	60.90	1.90
Singapore	9	633.95	19.73
Sweden	1	2.00	0.06
Taiwan	10	254.27	7.91
Thailand	1	0.07	0.00
USA	7	625.38	19.47
Germany	3	48.15	1.50
China	1	2.25	0.07
Saudia Arabia	1	2.00	0.06
Others	10	5.89	0.18
Total	62	3,212.57	100.00

Source: Malaysian Industrial Development Authority (MIDA)

For the period Jan-Sept 2008, the Prai Industrial Estate remained the most popular location for investors to base their manufacturing plants. The location attracted 11 projects worth RM3.9 billion, which represents 49 per cent of the total investments in Penang (see Table 26 on the following page). Although there is only one project in Permatang Pauh, it is a big project worth RM1.14 billion. The FTZs in Bayan Lepas attracted a total of RM356.7 million, a significant decrease from RM1.05 billion for the same period in 2007.

The Outlook for 2009

The sub-prime crisis noted in the *SERI Economic Report of 2007* has broken out of the boundaries of the US economy to engulf Europe and possibly Asia in economic gloom. With recession confirmed in the US, Japan and Europe, the immediate year 2009 prospects for many countries around the world are not bright. Unemployment is expected to rise in the US by early next year with massive layoffs, decreased investments abroad and asset price deflation. Of course we can hope that the US\$700 billion proposed by US President George Bush to bail out the country's financial system will not be derailed and begin to show some results. But even this requires time. Consequently, in the short term, foreign direct investment from these economies and especially the US may be expected to slow down. By the same token, the export dependent manufacturing sector in Penang is bound to feel the pinch with declining demand in these three economies that constitute the major markets for our exports. Already in October, exports from Malaysia recorded a fall for the first time in 15 months. The only question that remains is how hard the pinch will be. Although the government continues to forecast an economic growth of 3.5% for 2009, other experts predict a lower growth rate. We should in fact consider ourselves lucky if the economy manages to return positive growth in 2009.

Table 26: Approved manufacturing projects in Penang by location, Jan-Sept 2008

Location	No. of Projects	Potential Employment	Total Capital Investment (RM mil)
Prai IE	11	2,525	3,932.80
Prai FTZ	10	1,373	128.69
Prai Wharf FTZ	1	407	58.04
Mak Mandin IE	3	75	5.92
Butterworth	7	307	55.12
Bayan Lepas I IE	2	54	55.13
Bayan Lepas Ph I FTZ	4	157	52.71
Bayan Lepas Ph III FTZ	6	3,396	131.18
Seberang Jaya Complex IE	1	72	1.27
Bayan Lepas II IE	1	8	34.20
Bayan Lepas Ph IV FTZ	11	500	171.52
Prai IV IE	3	390	172.97
Batu Maung	1	26	1.43
Bayan Lepas	1	24	1.27
Bukit Mertajam	5	146	10.38
Bukit Minyak S.Prai Tengah	5	271	66.44
Nibong Tebal	3	216	25.86
Permatang Pauh	1	2,063	1,138.00
Permatang Tinggi	3	48	8.40
Prai IV	3	55	17.22
Seberang Jaya	5	588	225.97
Seberang Prai	11	1,392	364.98
Other areas	8	2,037	1,343.26
TOTAL	106	16,130	8,002.76



Source: Malaysian Industrial Development Authority (MIDA)

The Semiconductor Industry Association (SIA) projected a slump in sales for 2009 after an earlier projection of a compounded annual growth of 7.7 per cent between 2007 and 2010. The market turmoil of the last three quarters appears to have dented the optimism in the semiconductor industry. On 19 November 2008, the industry announced that it expects worldwide sales to drop by some 5.6 per cent to US\$246.7 billion from an estimated US\$261.2 billion in 2008. Some observers think that the drop may be even steeper depending on how quickly the financial sector recovers since it is a significant consumer (about 18%) of IT products.

The SIA expects the decline to affect both the PC and cell phone markets with the sales projected to decline by 5 per cent and 6.4 per cent respectively. It will be recalled that the forecast last year was that PC shipments would grow between 11-12 per cent while cell phone would grow by about 8 per cent. However, the good news is, given that excessive inventories are not an issue, the industry is well-placed to recover quickly once the current worldwide economic uncertainty settles down a bit.

The SIA is also projecting a 5.9 per cent drop in CPU shipments in the fourth quarter relative to the third quarter, despite seasonal trends that would normally boost the fourth quarter.

Intel (USA) which was cautiously optimistic just a month ago has reversed its projections and now expects fourth quarter revenue of just US\$9 billion (plus or minus US\$300 million), down from an earlier estimate of US\$10.1-10.9 billion. The downward revision was attributed to “weaker than expected demand in all geographies and market segments.”

Dell also saw a softening global demand for end-user products, citing lower spending in the US, Western Europe and several Asian countries. Ingram Micro, the world’s largest IT distributor, was similarly pessimistic about technology goods.

The sentiments of Malaysian manufacturers are equally cautious. In a survey involving 113 companies conducted in November 2008 by the Federation of Malaysian Manufacturers, about 82 per cent of the respondents expect the global economic outlook to worsen over the next 6-12 month period. This is not unexpected since almost half the world has slipped into recession. In fact some observers foresee four straight quarters of year-on-year declines in orders starting from October 2008. Furthermore, four-fifths of the respondents of the survey expected new orders and sales forecasts to be negatively affected either strongly or moderately.

Can the Malaysian economy ride out the crisis by depending solely on boosting domestic demand? Increased fiscal spending by the government will certainly generate jobs and more incomes domestically. And if consumer spending stays positive (that is, if people do not tighten their belts in expectation of a worsening economic scenario) then firms serving the domestic market may find some respite. But yet, several questions remain to be addressed. Chief among these is the question of whether any actions taken by Malaysia alone would provide a remedy, given that the problem is almost entirely generated from abroad.

In response to slowing economic growth—the economy grew at the slowest pace in the last quarter relative to the growth recorded over the last three years—the government announced a RM7 billion stimulus package and Bank Negara trimmed the interest rate on November 24th, the first rate cut since 2003. While these measures may help, they appear woefully inadequate given the magnitude of the problem we are facing. Interest rates were not high to begin with; a further cut cannot be expected to stimulate economic activity by very much. In a sense we are caught in the classic ‘liquidity trap’ situation. In the case of the spending boost by the government, RM 7 billion is not very much although it must be added that the government has promised more if needed. However, the question is whether ‘more’ from government alone would suffice.

There have been suggestions that the diversification of our export base will offer us some respite. For example, about 10 per cent of our exports go to China and most of it consists of components used to build products for the US market. However, the Asian Development Bank has predicted that the troubled US economy will hurt exports from China, which in turn, will affect exports from Malaysia to China. Furthermore, China’s leading indicator of manufacturing—the Purchasing Manager’s index has already turned negative following widespread factory closures and the piling up of inventory. Consumer spending has also dampened in Singapore and Japan. In fact, Singapore expects that the first quarter of 2009 could see the GDP contracting by 7-8 per cent compared to the year before. In the worst case scenario, it could see 5 consecutive quarters of negative growth. It is worth adding that it has never had 4 consecutive quarters of negative growth before. Furthermore, credit in Indonesia has tightened and economic growth in the region as a whole has been adversely affected. The situation calls for joint action by ASEAN countries and perhaps the other major economies of the region such as South Korea, Japan, China and India. A coordinated spending boost will have mutually beneficial effects.

Overall, therefore, we see more firms, especially in the export sector, reducing the number of shifts, shutting down periodically or cutting output and even laying off workers. This will probably intensify as early as the middle of the first quarter of 2009.

Of course, there is some buffer available to resident workers since in any workforce downsizing exercise foreign workers will probably be laid off first. However, the human angle cannot be downplayed because all workers deserve help and protection in difficult times—foreign or otherwise. The state will be well-advised to prepare itself to help laid-off workers absorb the impact on their economic well-being.

The most optimistic scenario is to hope for a short-lived recession in the US, of only a year or so. Even then, we would not be out of the woods yet as the recovery process is likely to be slow and could stretch over several years, unlike the recovery from previous downswings. **§ Prof Suresh Narayanan & Prof Lai Yew Wah**

TOURISM



2008 Review of the Penang Tourism Sector

Penang Tourism is today the most rapidly expanding economic growth area after the manufacturing sector. This is in tandem with the phenomenal development of the global tourism industry.

The Penang Tourism Survey Report (2007) clearly reveals the various trends charted by the tourism sector. Table 27 below shows a comparison of the estimated tourist arrivals for the years 2007 and 2008.²⁵ It is apparent that there is an increase in the estimated visitor arrival, whether domestic or international, in the year 2008. Upon closer scrutiny, the projected 1.56 million in the estimated international arrivals for 2008 exceeds the figure recorded in the previous year by approximately 130,000 visitors. The increase in international visitor arrivals can possibly be attributed to two major factors: the follow-on impact of the 2007 Visit Malaysia Year promotional efforts and the proclamation of Penang as a UNESCO World Heritage Site in 2008.

Table 27: Estimated Tourists Arrival for 2007 and 2008

	2007	2008*
Estimated Total Visitor Arrivals (in mil)	3.44	3.58
Estimated Domestic Visitor Arrivals (in mil)	2.01	2.03
Estimated International Visitor Arrivals (in mil)	1.43	1.56

Source: SERI's Penang Tourism Industry Survey Report (2007)

* The figures for 2008 are projected based on 2007 tourist arrivals in Penang

Table 28 depicts the national and Penang state Average Occupancy Rate (AOR) for the year 2008. It is apparent from the data below that the National AOR in 2008 deteriorated in all three quarters compared. According to industry players, the drastic decline during the 3rd quarter is due to a drop in the number of tourists from the Middle East. As Hari Raya Aidilfitri fell in the 3rd Quarter, many Arab tourists may have postponed their travel abroad, even though July-September is traditionally the peak period for Middle East tourists to visit the country. On the contrary for Penang, though the AOR seemed to decline in the 2nd Quarter, it improved and increased in the 3rd Quarter, growing by 6.31 per cent between Q2 and Q3.

²⁵The Estimated Tourist Arrival for 2008 was only a projected estimated index based on Compound Annual Growth Rate (CAGR).

According to some leading hoteliers, the increase in the AOR is very much due to an increase in the number of domestic visitors, which has outpaced the increase projected for the international visitors. The peak season for visitors, particularly international visitors, starts to pick up starting in the 3rd Quarter, with the market driven by mostly European and Middle East travelers.²⁶

Table 28: Malaysian and Penang Average Occupancy Rate (AOR), 2008

Month	2008 AOR	
	National	Penang
Quarter 1	69.98	56.95
Quarter 2	67.30	55.93
Quarter 3	64.90	59.46

Source: National AOR –Tourism Malaysia and Penang AOR - Penang Malaysian Association of Hoteliers (MAH)

Major Issues and Challenges

There are several challenges that the industry faces in improving the overall quality of products and services. For a start, Penang urgently needs to focus on reinforcing its position as a major travel destination in view of increasing competition in the global tourism arena. There is a need for greater cooperation between the public and private sectors to support the growth of the tourism industry. It is equally important to ensure that the image of Penang as an established tourist destination is not eroded by product fatigue and the lack of vision and growth momentum. If the state wants to retain tourism as one of its main revenue earners, the industry players would first have to work harder to improve the quality of services.²⁷

Furthermore, there is a need to focus on a few key niche markets, in areas such as MICE (Meetings, Incentives, Conventions and Exhibitions), retirees' 'summer camps', medical-holiday packages, cruises, sports and recreation, and to develop a marketing strategy based upon Penang's traditional strengths. MICE activities in particular play a significant role in international business travel. In the global arena, it is fast becoming a dynamic niche with an enormous potential for business, services and in particular, tourism sector linkages. With our fine selection of world-class convention, exhibition and accommodation facilities supported by the warmth and hospitality of our multi-ethnic people and our close proximity to world-class shopping and dining facilities, Malaysia has been lauded as a premier choice MICE venue by many. Thus, Penang as a sub-sector needs to be able to tap quickly into the emerging opportunities in this new growth area. In addition, new market segments for tourism-related services need to be identified and linked to a corresponding intensification of promotion efforts. This will be a crucial factor for enhancing the performance of the Penang tourism sector.²⁸

Recognizing and establishing Penang as a regional hub for tourism is another challenge that the local tourism industry faces. The most critical challenge here is to maintain Penang's position as a regional tourism hub.

²⁶Based on an interview with Penang Malaysian Association of Hotels(Penang MAH) Penang Chapter Chairman Marco G.Battistotti, 2008

²⁷Based on an interview with Penang Tourism Action Council (PTAC) Event Manager Ashwin Gunasekeran, 2008

²⁸Based on an interview with Penang Tourism Action Council (PTAC) Chairman Dato' Kee Phaik Cheen, 2008

As a result, more resources need to be allocated for tourism activities in the State. This is especially important now that Penang has been added to the UNESCO's 2008 list of world heritage cities. There is in fact great potential for preserving Penang's beauty in terms of its cultural heritage. Its unique mix of Malay, Chinese, Indian and colonial British architecture should not be lost. With the inclusion of George Town in the UNESCO World Heritage List, conservation efforts should begin in earnest in line with UNSECO guidelines to preserve what may be Penang's trump card to lure sophisticated and culturally-inclined visitors to the State.

Apart from the intention to preserve, actual restoration works also need to be enhanced. Most of these restoration works entail improving the physical structure of the heritage sites. For this to be effective, the State Government should provide incentives to oversee the preservation of the traditional architectural traits that give these buildings their unique flavour. Since museums are the centre of attraction particularly for international visitors, steps should be taken immediately to upgrade them. Museums are indeed a key institution for historical artefact conservation and function as a key reference points for many visitors.



However, George Town's UNESCO heritage city status was recently embroiled in some controversy, since under the stringent guidelines a maximum height of 18m (or roughly five storeys) was set for new buildings erected within the designated heritage zone. Despite the ruling, four proposed high-rise hotels in the heritage core zone were deemed to have violated the guidelines approved by the WHC. These four constructions are the Rice Miller boutique hotel in Weld Quay which is to be 13 storeys high (51m), the Boustead Royale Bintang Hotel which is to be 12 storeys high, E&O Hotel extension wing which is planned to be a 17-storey high structure (or 84m) and another 23 storey (84.4m) hotel in Jalan Sultan Ahmad (*The Sun*, 21/11/08). The violation of the maximum height ruling may threaten Penang's status as a UNESCO heritage city, which in turn may have an adverse effect on the perception of culture and heritage-inclined visitors.

Another important related niche sector for Penang is medical tourism. Malaysia in general and Penang in particular have benefited from the massive growth of the global medical tourism industry in the past decade. Experts in the field have noted that as many as 150,000 U.S. citizens underwent medical treatment abroad in 2006, with the majority heading to Asia and Latin America. That number grew to an estimated 750,000 in 2007 and could easily touch the 6 million mark by 2010. Patients are packing suitcases and boarding planes for everything from face lifts and nose jobs to life-saving heart bypass surgeries and sophisticated fertility treatments.

Penang too has been enjoying a boost in its medical tourism sub-sector. This is evident as the number of medical tourists in Penang has increased by 4.36 per cent in 2008 vis-à-vis 2007.²⁹ Medical tourists who seek treatment in Penang include those from Indonesia, Japan, Europe and USA. Among these countries, Indonesia supplied the highest number of medical tourists (or foreign patients), that made up approximately 81.03 per cent of the total of 172, 209 patients received in the 3rd quarter of 2008 (Jan-Sept.)³⁰

²⁹Penang Hospital Association Statistics for Foreign Patients , 2007 & 2008

³⁰Penang Hospital Association Statistics for Foreign Patients , 2008

There are many obvious advantages in choosing a Malaysian destination such as Penang for health and medical services. Medical charges and hospitalisation costs are very competitive compared to those in many developed countries. The medical expertise in Penang is also ranked among the best in the world. Therefore, there are many reasons for foreigners to consider Penang a good-value destination for medical tourism. Generally, Malaysia is a destination of choice for medical tourism because of :³¹



- the general availability of English-speaking medical staff
- the harmonious, plural environment catering to diverse or specific needs (for e.g., Muslim *halal* food can be easily found)
- the favourable exchange rates (one Ringgit Malaysia is equivalent to approx. USD 0.26, Sterling Pound 0.18, Indonesian Rupiah 2700, Saudi Riyal 0.96, Brunei dollar 0.47, Singapore dollar 0.47)
- the affordable hospitalisation costs. An uncomplicated *Coronary Artery Bypass Graft* (CABG) would cost in the region of US\$6,000-7,000, which is very much lower than a similar procedure in the USA.
- the availability of highly-trained medical specialists, most with recognized post-graduate qualifications from the UK, Australia and the USA.
- the availability of multi-ethnic, multi-lingual support staff from various religious denominations (which increases the comfort-level of patients of different creeds)
- good access to major international airports. There are 224 hospitals in the private sector located nationwide.
- the comprehensive network of hospitals and clinics in the country. About 88.5 per cent of the local population are living within 5 km of a public health clinic or private practitioner.

Global Financial Crisis and Its Impact on Tourism

Despite the global financial crisis on Malaysia's tourism industry, Tourism Minister Datuk Seri Azalina Othman asserted that Malaysia would be able to sail through and continue to receive tourists. However, she noted that because of the economic crisis, tourists will be more selective about their travel destinations. Furthermore, Malaysia's advantage over its neighbouring countries was that the room rates for its four-star and five-star hotels were still cheaper compared to its regional competitors. As a result, Malaysia should be able to retain its position as a preferred destination among regional and global travelers.

Conclusion

To sum up, it is hoped that the inclusion of Penang in UNESCO's heritage list will aid the continued progress of the tourism sector despite the global financial crisis. The UNESCO status calls for increased measures in the conservation, rehabilitation, upgrading and adaptive reuse of buildings of historical, architectural and cultural significance. Emphasis should be given to the promotion of living heritage as a perpetual asset of the local community. Also, concerted efforts between the State and Federal Government must be undertaken to retain the coveted UNESCO status by preserving, improving and expanding the range of unique Penang heritage attractions available to tourists. This would entail enhancing these attractions with a support infrastructure of proper facilities and interpretive services. The whole streamlining of the organizational framework, the rapid pace of development and the demanding standards of the global and regional tourism industry require a mechanism to be established for effective planning, regulation, promotion and development of tourism in the State.³² **§ Parthiban Gopal & Richard Ho**



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³²Based on an interview with Association of Tourism Attractions Penang (ATAP) Chairman Eddy Low Lean Sing, 2008

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