

The Penang Paradigm

prepared by the Penang Institute

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The present stagnation of the Malaysian economy cannot be blamed on the Global Financial Crisis that broke out in September 2008, and on the slow recovery of the rich countries. The average income (GDP per capita in PPP\$) in Malaysia was 30.7 percent of US income in 1996 and was only marginally higher in 2007 at 31.9 percent. In contrast, Korean income grew from 49.9 percent of US income in 1996 to 61.4 percent in 2007; and Taiwanese income grew in the same time period from 55.7 percent of US level to 66.8 percent. In short, Malaysia was already inside the middle-income trap by 2007, and has now been there for the last decade and a half.

It is also instructive to note that at the time of the formation of Malaysia in 1963, Malaysian income was 13.6 % of US income, whereas Korea and Taiwan incomes were both lower at 10.7 % and 12.6 % respectively. Today, fifty-years later, Malaysia is half as rich as Korea and Taiwan. Malaysia started its national history with greater advantages than its neighbours but has entered into the 21st Century much below its natural potential. Furthermore, over this period, income distribution has worsened markedly, and bio-diversity has been reduced considerably.

Today, the Penang Institute is seeking guidance from the people of Penang and from friends outside Penang on how to improve its draft report of the *Penang Paradigm*, a comprehensive development agenda to:

- restore economic dynamism to Penang;
- upgrade significantly the liveability of Penang, and the sustainability of its natural environment; and
- accelerate social development in Penang to entrench social harmony and to widen social inclusion.

The key policies that we propose for Penang are also applicable to the rest of Malaysia. The initiation of the above three socio-economic processes nationwide will naturally speed up socio-economic progress in Penang (and in every state) because of the synergistic interactions among the thirteen states.

What Went Wrong, and What Is Still Wrong?

In the last dozen years, the Federal government unleashed a series of new comprehensive policy packages to jumpstart the economic catch-up process in Malaysia, e.g. the Talentcorp Programme, the Northern Corridor Economic Region (NCER) development plan, the Economic Transformation Programme (ETP), and the Government Transformation Programme (GTP). Each of these expensive programmes can be identified with a major weakness in the Malaysian economy.

The existence of the

- Talentcorp project testifies to the shortage of human talents in Malaysia;

- NCER development plan and the other regional development plans reveals that the over-concentration of economic activities in the Klang Valley and the over-centralization of public infrastructure in the Kuala Lumpur-Putrajaya area have created a highly unequal spatial pattern of socio-economic development;
- ETP highlights the severe shortfall in domestic investment; and
- GTP indicates the unsatisfactory performance of the Federal institutions of governance like the civil service and the judiciary system.

These new, expensive programmes have yet, however, to turn the deteriorating economic situation around. Analytically speaking, the ineffectiveness of these new policies is to be expected because they are focused mainly on ameliorating the symptoms of the Malaysian economic malaise and not on addressing the root causes of these symptoms. The Federal government has been attempting to cure the economic malaise without first identifying explicitly the specific factors that have been making the Malaysian economy sick, and then designing policies targeted at these specific factors. Instead, the Federal practice is to come up with policies that could potentially offset the negative outcomes caused by these specific factors.

This diagnosis-free approach to economic management is akin to attempting to cure every medical ailment with a major dosage of vitamins that cover the entire range of the alphabet. Clearly, this approach to medical problems would work only if the doctor is well blessed with good luck. It is, therefore, disheartening to note that quite a number of other organizations (that are well-blessed only with money) have recently also adopted the diagnosis-free approach in their policy recipes to kick-start the Malaysian economy.

Most dishearteningly of all is that the facts are in plain sight for all to see. The specific factors that need to be addressed in order to free Malaysia from the middle-income trap are:

- the abuse of race-based socio-economic policies and the use of relationship instead of performance in government selections that are causing massive brain drain from every community (hence, the shortage of ideas) and huge capital flight (hence, the shortage of investment);
- the over-centralization of power at the Federal level that is preventing the local governments from providing the necessary infrastructure to support local development (hence, the shortage of hard infrastructure outside of Kuala Lumpur and Putrajaya); and
- the opaqueness of Federal government operations -- e.g. closed, negotiated government contracts -- that is sheltering incompetence, and, possibly, also, corruption, from public accountability (hence, the shortage of soft public infrastructure).

The negative effects on GDP growth from the brain drain, capital flight, insufficient hard infrastructure, and sub-standard soft infrastructure were not clearly seen prior to 1995 because they had been more than offset by *massive inward FDI, and by large state and GLC investments, that were made easier by the post-1974 growth in oil and gas revenue.*

However, the post-1990 *expansion of globalization* to the former Soviet empire, India and China has caused the proportion of global FDI received by Malaysia to drop significantly. This drop in Malaysia's share of global FDI share, together with the *weaker financial strength of the Federal Government and of the GLCs after years of mismanagement*, have brought about an investment collapse in the 2000s, thus miring Malaysia in the middle-income trap for the last decade and a half.

These harmful policies were arguably justifiable for short-term use in order to reach some numerical targets quickly, but their continued implementation to this day cannot be justified on

economic equality and social justice grounds. These policies are short-term emergency instruments for the domestic and international circumstances of earlier times. These policies should not have been used beyond 1985.

From March 2008 onward, the Penang state government has put into place three sets of policies to reduce the deleterious effects of the Federal policy regime on Penang:

- replacing crony capitalism with fair competition, e.g. having open tenders for public projects;
- beginning the process of decentralising decision-making, e.g. pushing for local council elections; and
- stopping the decline in the quality of government services, e.g. using CAT (competency-accountability-transparency) principles in governance.

Building on the Successes Achieved by Penang in the 2008-2012 Period

The operational component of the *Penang Paradigm* is divided into strategies and targets for (i) economic dynamism, (ii) liveability and sustainability, and (iii) social development and inclusion. The *Penang Paradigm* devotes as much attention to issues in Liveability and Sustainability and to issues in Social Development and Inclusion as to issues in Economic Dynamism because, in the long-run, the three systemic properties of prosperity, liveability, and harmony are interdependent outcomes. The viability of each of the three properties requires the existence of the other two properties. The ultimate level of social welfare is, in short, a multiplicative product of these three systemic properties: a zero score on any one dimension would finally induce a collapse of the system.

The *Penang Paradigm* seeks to strengthen the process of restoring economic dynamism by proposing specific policy measures to boost:

- the growth of high-tech manufacturing and of the high-tech bio-agro sector, e.g. the expansion of the electrical and electronic sector, the medical device industry, the *halal* food industry, and the aquaculture industry;
- the emergence of high-value modern services activities e.g. becoming a global centre for outsourced business processing (OBP);
- the blossoming of high-yield tourism, e.g. becoming the regional medical centre, and becoming the preferred winter retreat for residents in the temperate zone;
- the establishment of a regional educational hub, which would not only be a high-revenue green industry but would also be a consulting resource for firms in the region;
- the transition of SMEs to world-class exporters i.e. to replicate the Taiwanese experience;
- the provision of high-quality infrastructure services, e.g. supplying superfast internet to support the OBP centres, and being the international port to serve the logistical needs of northern peninsular Malaysia, northern Sumatra, southern Thailand, and southern Myanmar; and
- the development of a centre of excellence in science and technology.

Because a prerequisite for success in each of the above seven areas is the availability of sufficient human talent in that sphere of activities, the *Penang Paradigm* presents practical suggestions on how to upgrade the skill level of the Penang labor force, retain human talent in Penang, and attract human talent to Penang. The comprehensive measures proposed in the *Penang Paradigm* to greatly enhance the liveability and ecological sustainability of Penang and to quicken social progress in Penang will help not only to increase the amount of human talent

in Penang but also to raise directly the welfare of Penang residents.

Among the key policy recommendations on "Liveability and Sustainability" are measures:

- to make housing affordable to all by:
 - reforming the planning and zoning guidelines and the structure of development fees and charges;
 - using incentive-based zoning to encourage building of affordable units instead of large, luxury units;
 - replacing the existing developer-led low-cost housing quotas with progressive financial contributions also based on Gross Development Value per square foot;
 - building public housing through open tender processes; and
 - developing non-profit housing cooperatives to manage and maintain social rented housing.

- to reduce traffic congestion and improve connectivity by:
 - instituting the practice of aligning land-use with transport planning;
 - favoring mixed land-use so that the places where people work, live and play are closer to each other;
 - encouraging people to move from the suburbs back to the city, especially to the Heritage Part of the city, and to use bicycles for movement within the city;
 - constructing strategic bypasses to improve north-south travel on the Island;
 - building a comprehensive mass transit system of trams and buses; and
 - connecting the northern part of the Island with the northern part of Seberang Perai with a tunnel.

- to improve the quantity and quality of open public space by:
 - increasing public space requirements in housing projects;
 - restructuring open-space requirements and incentives to emphasise quality of open space in new developments;
 - including coastal linear parks in new reclaimed land, e.g. the proposed Gurney Drive Coastal Park;
 - leasing/adapting under-utilised private and council land for public use, e.g. the proposed Prangin Heritage Square and the proposed conversion of Jelutong landfill into a park; and
 - engaging with local business communities to take ownership of urban improvements, e.g. the George Town BIDS (Business Improvement District Scheme).

- to enhance the sustainability of the natural environment by
 - requiring green building design and techniques for all new developments on a staged basis;
 - greening urban areas;
 - designing a new master drainage and water-harvesting plan;
 - encouraging sustainable agricultural practices;
 - reducing water demand through education and pricing; and
 - rolling out an environmental disaster control and mitigation plan.

The key target in the 2008-2012 period of eradication of "absolute poverty" in Penang has been achieved. The *Penang Paradigm* will now speed up social development and broaden social inclusion in Penang by implementing concrete programmes:

- to combat poverty, inequality and discrimination by
 - providing top-up support to ensure minimum household income of RM770 per month (hence, wiping out poverty in Penang);
 - expanding micro-credit schemes to the poor to enable them to increase their earnings;
 - enlarging existing programmes to alleviate poverty amongst senior citizens;
 - providing disabled-friendly infrastructure for mobility and accessibility in all public spaces;
 - establishing a committee to present annual social inclusion reports before the Legislative Assembly; and
 - mandating equal opportunity and gender equality in State-owned agencies and contractors.

- to strengthen family and community support by:
 - expanding access to childcare and care for the elderly by facilitating start-ups and providing grants and fee assistance for the poor;
 - establishing a network of community centres for youth, community and senior citizens' programmes;
 - setting up mobile community clinics in urban and rural areas;
 - establishing a State health education programme on preventive care;
 - establishing district registration and assistance units for “stateless” Malaysians;
 - protecting the rights of domestic and foreign workers by instituting an ethical employment policy at workplace and at home; and
 - establishing a unit under the Penang Women Development Center for Children's Rights and Child Protection.

- to promote economic empowerment through education by
 - setting up a One-Stop Centre for establishing preschools and childcare centres at each local council;
 - forming a Public-Private Partnership in establishing Preschool Education integrating mainstream children and those with special needs;
 - starting Creative Learning Programmes for primary and secondary students in reading, writing, mathematics, science and English;
 - providing alternative educational pathways through private vocational education;
 - setting up an apprenticeship programme via a public private partnership; and
 - expanding retraining and up-skilling programmes through the Penang Skills Development Centre and professional institutions.

- to institutionalise democratic empowerment by
 - mandating compulsory asset declarations by all State legislators;
 - implementing Freedom of Information Enactment;
 - providing online access to State legislation & *Hansard*, council by-laws and minutes, planning applications, etc.;
 - improving training and resources for State legislators;
 - decentralising and rationalising powers between all three levels of government to deliver democratically-accountable local governments;
 - improving public consultation processes; and
 - setting up website and mobile apps for public complaints, suggestions and petitions.

Realising the Potential of Penang

To emphasise again, the core belief of the *Penang Paradigm* is that restoration of economic dynamism alone cannot produce sustained high-income growth in Penang. This also requires that (i) Penang's liveability and environmental sustainability be improved drastically; and (ii) social harmony and inclusion in Penang be strengthened dramatically. ***Only with progress on all three fronts – economic vibrancy, liveability and sustainability, and social development – will Penang become the balanced society that will be able to (i) nurture the generation of world-class ideas, (ii) afford the private investment to bring the business ideas to fruition, especially in the international market place, and (iii) provide the necessary public infrastructure to ensure the maximization of social welfare.***

The outcome for Penang from the implementation of the *Penang Paradigm* will be an international and intelligent State. Malaysia will have to adopt the same programme in order to become an international and intelligent country.

To realise the potential of Penang, the Penang Institute asks the people of Penang and friends outside Penang to give us feedback on this draft of the *Penang Paradigm*. Your guidance is crucial in enabling the final version of the *Penang Paradigm* to help the people in Penang and Malaysia to achieve their aspirations for themselves, for future generations, and for the world. We have the confidence to have faith in that the best is yet to be because we can shape the future that we want our children to live in.

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