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CATCHING THE WIND

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CATCHING THE WIND

Penang in a Rising Asia

Edited by
Francis E. Hutchinson & Johan Saravanamuttu

PENANG
I N S T I T U T E
making ideas work

ISEAS
Institute of Southeast Asian Studies
Singapore

First published in Singapore in 2012 by
ISEAS Publishing
Institute of Southeast Asian Studies
30 Heng Mui Keng Terrace
Pasir Panjang
Singapore 119614
Email: publish@iseas.edu.sg
Website: <http://bookshop.iseas.edu.sg>
For distribution in all countries except Malaysia

First published in Malaysia in 2012 by
Penang Institute
10 Brown Road
10350 Penang
Malaysia
Website: www.penanginstitute.org
For distribution in Malaysia

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ISEAS Library Cataloguing-in-Publication Data

Catching the wind : Penang in a rising Asia / edited by Francis E. Hutchinson & Johan Saravanamuttu.

1. Pulau Pinang—Economic conditions.
2. World Heritage areas—Malaysia—Pulau Pinang.
3. Pulau Pinang—Social life and customs.
 - I. Hutchinson, Francis E.
 - II. Saravanamuttu, J. (Jayaratnam)

HC445.5 Z7P4C35 2012
ISBN 978-981-4379-87-8 (soft cover)
ISBN 978-981-4414-35-7 (e-book, PDF)

Printed by The Phoenix Press Sdn Bhd

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FOREWORD

In 2009, the Institute of Southeast Asian Studies (ISEAS) co-organized the inaugural Penang Outlook Forum with the Socio-Economic and Environmental Research Institute (SERI). The inaugural Forum, with a focus on “Restructuring and Reshaping Penang”, was held in George Town, Penang on 1-2 June 2009. I am pleased to note that this inaugural Penang Outlook Forum resulted in the joint publication of *Pilot Studies for a New Penang* by the two research institutions in 2010.

It was therefore with great pleasure that ISEAS decided to host the second Penang Outlook Forum with the focus on “Penang in Asia”. In the event, I was most encouraged by the enthusiastic response from the Singapore community to the forum and pleased that the forum has resulted in a second joint publication. I would like to congratulate the editors and the paper writers for their sterling effort.

As I understand it, the book aims at positioning Penang, and its primary city, George Town, in context of the rise of Asia as the new growth hub of the world economy. George Town is not a capital city or a megalopolis, yet it has still managed to carve out a niche for itself in a range of sectors. Second-tier cities, such as George Town, are clearly emerging as important sites for innovation, as their smaller size and pro-active policy-making has enabled them to attract or nurture a range of new industries. Specialized industries and services must also be served by efficient infrastructure, well-planned townships, functioning public transport as well as the proper management of basic resources such as water.

We in Singapore are of course happy to share with Penang our experience in areas such as economic efficiency, in public transport, housing and infrastructural development. But I hasten to add that the two cities have developed quite differently over time although they shared a common history as Straits Settlements under the British.

It was from Penang that Sir Stamford Raffles set sail to found Singapore in 1819. It is therefore most appropriate today for Singapore and Penang to think about each other's new Asian connectivity. I am confident that the two cities can re-connect in many meaningful ways in this age of globalization to enhance their economic, social and cultural ties. Singapore's more global connectivity could surely help to enhance Penang's own regional connectivity. In short, I believe that the two cities can mutually help each other improve their respective statuses as unique cities in the new global environment of a rising Asia.

Ambassador K. Kesavapany

Former Director

Institute of Southeast Asian Studies, Singapore

(November 2002 – February 2012)

FOREWORD

Since the conference co-organized by ISEAS and SERI took place in June 2010 from which the papers that constitute this book, the latter think-tank has undergone a major organizational transformation.

Most significantly, SERI became Penang Institute in August 2011. This name change proclaimed a consolidation of research initiatives aimed at strengthening institutional competence in selected fields; helping the state and federal government in key policy areas; and positioning the institute within the growing regional context with the conviction that economic growth must immediately involve new thinking about emerging issues affecting East Asia in order for its impact to be broad and responsible.

The ideas discussed in this volume are in line with this ambition, following as it does on the earlier publication in the Penang Studies Series, *Pilot Studies for a New Penang* (ISEAS and SERI 2010). More volumes are in the making, geared towards turning Penang Studies into a discipline that not only discusses the finer points of sub-national development and its connection to national and regional well-being, but also illustrates the regionalism that has always informed Penang's culture, politics and economy.

We are thankful to ISEAS and its former Director, Ambassador K. Kesavapany, for his cooperation in our projects, and to all the scholars and friends of Penang who have contributed in various ways to bring this second volume to completion.

We live in exciting but difficult times. Such times throw forth new challenges that are best met by the region's best minds working together, constructing new concepts and ideas and bringing these to public attention. National perspectives need to be complemented by sub-national and regional ones at the same time if we are to have a good chance of breaking the back of the serious problems troubling our times, such as shortages involving water and food, crises involving urban sprawl and poverty; and climate change and global warming.

Liew Chin Tong
Executive Director
Penang Institute

ACKNOWLEDGEMENTS

Most of the papers in this volume were first presented at the second Penang Outlook Forum, with the theme “Penang in Asia”, which was held at the Institute of Southeast Asian Studies (ISEAS), Singapore, on 3 June 2010. The Forum was jointly organized by ISEAS and the Socio-economic and Environmental Research Institute (SERI), now renamed the Penang Institute. We would therefore like to thank both research institutions for making the Forum not just possible but also a major success.

Second, we would like to thank all the paper presenters for their participation and efforts in writing the papers and revising them for publication, along with several others who were commissioned to write chapters for the book. Our heartfelt thanks also go to all the chairpersons and discussants for their involvement and active participation in the Forum.

Our thanks go to the Parkway Group for generously contributing to the conference expenses and to Ms Janick Vatikiotis of JVB Consultants, representative of InvestPenang in Singapore, for her organizational assistance. On the ISEAS side, our sincere thanks go to Amb. Tan Keng Jin and Ms Hafidzah Ikbar of the Public Affairs Unit of ISEAS for their constant organizational assistance. And many thanks go to Ms Betty Kwan of ISEAS, who assisted the editors from start to finish of the project.

Finally, our thanks go to Mr Lim Guan Eng, the Honorable Chief Minister of Penang, and Ambassador K. Kesavapany for gracing the occasion and giving their keynote addresses.

The Editors

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INTRODUCTION

*Johan Saravanamuttu
and Francis E. Hutchinson*

Since its establishment in 1786, Penang has had to consistently reinvent itself. Originally conceived of as a port-of-call on India-China trading routes, Penang lost out to the better-located Singapore in the 1820s. Subsequently, it had to reinvent itself as a regional entrepôt, catering to southern Thailand, northern Sumatra, and Kedah in order to survive. Following the opening of the Suez Canal in 1869 and the age of steamships, Penang established itself as a conduit between the riches of Peninsular Malaya and the world (Chuleeporn, 2009: 105-06). European and Chinese businessmen linked the Settlement with tin mines and rubber plantations in Perak, southern Thailand, and beyond.

These periodic reinventions, along with Penang's historic openness to migration, led to an enviable cultural mix. At the apogee of the British period, the Settlement was a regional educational hub for Islamic, English, and Chinese education. Penang's polyglot society of diverse groups, cultures and ideologies proved potent enough to result in two secession movements in 1948 and 1953. Economics was no doubt a factor behind the challenges to Penang's incorporation in the emerging Federation of Malaya. The Penang Chamber of Commerce - the representative of European business interests - led the movement but secessionists also included the Penang Eurasian Association, the Chinese and Indian Chambers of Commerce and the Penang Clerical and Administrative Union (Mohd. Noordin Sopiee, 1973). However, the movement failed to gather momentum, or Penang's modern history may well have been different.

In the immediate post-independence era, Penang as a state within the Federation of Malaya (and Malaysia) saw its economic fortunes decline, especially after the Korean War, the withdrawal of its free port status, and increasing competition from other ports on the peninsula. However, in the 1970s, under the direction of Chief Minister Lim Chong Eu, the aging entrepôt transformed itself into an offshore manufacturing hub

for the electronics industry and a well-known tourist site. This outward-looking model of economic growth has underpinned Penang's economic development up until the present.

The issue that now arises is whether Penang's present mode of development will continue to be effective. Some of the current questions that face the state are the following:

First, Malaysia in general, and Penang in particular are caught in a middle-income trap. Rising wage levels coupled with middling progress in productivity have seen the country and the state progressively losing ground to economies with higher skill levels on one hand, and lower labour costs on the other.

Second, while the evolving weight of the global economy is shifting towards Asia, many of the emerging powers are competing with Penang in areas where it formerly excelled. China and India offer Penang competition, but also potential partnerships and rapidly-expanding consumer markets.

Third, Penang is a state within a federation, and its capital, George Town, is a secondary city. While George Town cannot rival Kuala Lumpur in sheer size or facilities, it can offer investors an enabling environment for business due to its comparatively unburdened infrastructure, pleasant urban environment, and skilled workforce. Effectively leveraging these attributes will require far-sighted planning, positioning, and agile policy-making.

In order to address these issues, the Penang Institute, in partnership with the Institute of Southeast Asian Studies, has organized yearly Forums to share up-to-date information and research on key issues facing the state. The first Penang Outlook Forum entitled 'Restructuring and Reshaping Penang' was held in April 2009. The Second Outlook Forum was held in June 2010 at the Institute of Southeast Asian Studies in Singapore. Its theme was 'Penang in Asia', and it drew together a range of papers that examined aspects of the state's economy, cultural heritage, and living environment.

This volume draws on many of the papers presented at the Forum and complements them with a number of articles that were commissioned to

cover specific subjects. Building on the original theme, this book asks and seeks to address the fundamental questions that lie before Penang as it seeks to position itself in a changing global environment. These include:

- How can Penang and its primary city, George Town, meet the challenges and opportunities resulting from the increasing economic importance of Asia?
- What niche industries and investment opportunities can Penang offer investors in the region and beyond?
- How can Penang proactively manage and preserve the benefits that come from its status as a UNESCO World Heritage site?
- How can Penang reconcile the pursuit of economic growth with the conservation of its natural and urban environments?

To this end, the book has four distinct sections, all of which deal with the issue of how best to position Penang to 'catch the wind' in the evolving economic context. The first section, which includes this introduction, examines the implications for Penang's economy in terms of: Asia's growing economic importance; the new technological imperatives for maintaining competitiveness; and the challenges facing firms in Penang in their pursuit of innovation. Hutchinson's chapter provides the overall context for this book, as it looks at structural shifts in the global economy, Malaysia's evolving economic framework, and what these mean for Penang.

The second section of the book focuses on Penang's new status as a World Heritage Centre. It explores the notion of heritage itself, what the status entails for the state, and what needs to be done for an active and responsible stewardship of Penang's rich multicultural heritage. Chapter Two by Khoo Salma Nasution delves into George Town as a World Heritage site and how it should be managed. Taking this line of argument further, the next chapter by Goh Beng Lan interrogates the very notion of heritage as local knowledge and historical memories which are not just embedded in physical forms such as buildings but in societal values, movements and social consciousness. The final essay in this section by Syed Muhd Khairudin Aljunied examines heritage conservation in Penang from the perspective of the Muslim community.

The chapters in the third section offer various perspectives of Penang's

economy in terms of investment opportunities, skills development and infrastructural support. Chapter Five by InvestPenang – the state government’s investor liaison agency – puts forward an overall perspective of the current investment opportunities that the state offers, as well as a discussion of the role of various governmental and private sector organizations. The chapter by the Penang Skills Development Centre (PSDC) focuses on the current and foreseeable skills requirements of the state’s manufacturing sector. The final chapter in the section by Jaseni Maidinsa provides an in-depth view of the agency charged with water provision. The Pihak Berkuasa Air Holdings Berhad (PBA), formerly-known as the Penang Water Authority, is a crucial part of the state’s competitive advantage.

The fourth set of essays looks at some of the niche industries or ‘green shoots’ that have emerged in Penang. The chapter by Yoon Chon Leong of Bizwise Consulting, examines Penang’s electrical and electronics sector in great depth, seeking to identify unique capabilities. Drawing from a survey of 600 companies, the author lays out a range of core competencies where firms in the state can make a unique value proposition. In Chapter Nine, Mika Toyota and Mayumi Ono present an in-depth study of Japanese long-stay retirees in Penang, which stands out as a primary destination for this age-group for retirement and as a gateway to Southeast Asia. The next chapter by Su-Ann Oh looks at the growth of medical tourism in Penang, which represents one-third of the visitors to Malaysia for this purpose. The final chapter of this section looks at the Malaysian halal industry, and the development, opportunities and challenges faced by this industry in Penang.

The time has come to take stock, evaluate strengths and weaknesses, and to chart the course ahead for the state. While Penang cannot change the direction of the wind, it can adjust its sails accordingly to best ride the waves. It is hoped that these papers and the discussion that they will generate will form part of a continuous discussion by Penangites and others as to the course and direction the state will chart in the years to come.