

01/01/2001

Making K-economy work

Khoo Chuan Keat

IF WE ACCEPT the inevitability of K-economy, then we must recognise that new skills and dynamic entrepreneurship will be required to survive in this borderless global world. In laying the foundations for this K-economy, a number of key ingredients are essential: first and foremost, a smart and skilled workforce; next, enabling technologies; equally critical, industrial and commercial linkages through smart partnerships; and last but not least, transcending all the ingredients, support from the government.

As with everything else, the tone must be set from the top if we wish to initiate cultural change and bridge the digital divide. The K-vision and strategic direction must be driven by the government at the highest level and only then, will it permeate through the different levels of society right to the individual. As our Prime Minister Datuk Seri Dr Mahathir Mohamad has rightly pointed out, the K-economy Master Plan must be a master plan for the entire nation and a personal master plan for every citizen, with all segments of society participating. To the government's credit, it has taken the bull by the horns and determined that K-vision and strategy. It is now up to the private sector, both corporations and individuals, to take ownership as smart partners and embrace the challenge.

Without doubt, Malaysia's remarkable economic performance in the past two decades can be largely attributed to the government's success in developing consultative strategies with the private sector and their combined resolve towards successful implementation. In this regard, preparing the foundations for the K-economy would require similar planning and implementation skills, albeit with a greater holistic approach. However, strategies which were effective in driving a production-based economy may not work in the development of a knowledge-based economy where both people and enabling technologies are central to success. A production-based economy is focused on the development of efficient machinery and an adaptable workforce, whilst a knowledge-based economy requires a smart workforce with enabling technologies.

Rightly so, continuing emphasis is being placed on the development of information and communications technology (ICT), and with it, the role of venture capital as a source of funds. However, our past efforts in trying to jumpstart venture capital investment in high technologies have met with little success. The establishment of a central agency to co-ordinate the national development of venture capital, together with the allocation of another RM500 million to the Venture Capital Fund to assist business angels in investing in capital startups, as well as the liberalisation of listing requirements on Mesdaq (Malaysian Exchange of Securities Dealing and Automated Quotation), are steps in the right direction.

Recognising the high risks associated with the venture capital industry, the idea of encouraging business angels to invest in equities of venture companies by allowing a tax deduction for the investment is correct, but the point seems to be missed under the condition for deduction, ie, the investment must be held until listing. If the venture company succeeds and becomes listed, the investor will not be concerned with tax deduction but rather whether the gain on post-listing disposal will be taxed.

For every success, there are many failures. It is only when the venture fails that the investor is concerned with tax deductions for his

investment. It is, therefore, critical that these basic principles be fully appreciated and that the implementation is not made onerous, as otherwise, this measure will also not yield the desired result.

The private sector must, at the same time, respond and be bold enough to invest in the commercialisation of new ideas. This is where a smart partnership between the government and the business angels is critical in spearheading the drive towards the K-economy.

The government has also made the right start by recognising that all citizens, rather than only skilled knowledge workers, make up the K-economy. Human resource development must remain a national priority and the foundation for developing a smart workforce must begin at the most basic level - at the schools. Smart schools, computer literacy programs for children, the cultivation of reading habits, computer laboratories, improving English language skills, encouraging a culture of lifelong education are all necessary, but the fundamentals must also be addressed. The current education curriculum tends to focus more on academic rather than all-round development; hence stifling the environment for creativity and innovation. There seems also to be a lack of reward system for retaining indigenous brains and talents in our universities for selected sciences, as well as a dearth of collaborative research projects with the private sector. Both parents and teachers must also take ownership in preparing their charges for the new economy, and corporations can play a pivotal role by adopting a school, college or university with the view of championing their quest in technology and knowledge development.

Meanwhile, the government has recognised the need to fill the vacuum by upskilling the workforce and attracting knowledge workers to the country. Given that we are competing for the best talents in the new economy, the proposal to award permanent resident status to spouses and children in order to lure Malaysian knowledge workers back to the country is very appealing. However, since only individuals identified by a Special Committee to have the required expertise will qualify, the success of this measure will depend very much on the transparency of criteria and efficiency of the evaluation process. Too often, excessive red tape and lack of understanding of the big picture at the bureaucratic working level has stifled many well-intended initiatives. The perennial challenge is to bridge the gap between the vision and the implementation. The devil has always been in the details and execution.

In seeking to attract and hire the best brains from abroad, knowledge workers are allowed to bring back a couple of cars tax-free. This measure may have some limited appeal but the exemption for remittance of income will have minimum influence since in most cases, returning individuals are likely to be non-resident for tax purposes in the year of their return, and as non-residents, whatever income they remit to Malaysia is tax-free anyway.

What perhaps may have been more attractive is to give a tax exemption of up to, say, 50 per cent for a period of three to five years. By comparison, the top marginal tax rate of 28 per cent in Singapore only kicks in when the taxable income exceeds S\$400,000 as opposed to 29 per cent for taxable income above RM150,000 in Malaysia. In Hong Kong, the top marginal tax rate is currently only 17 per cent for taxable income exceeding HK\$ 105,000. Although personal tax rates and net disposable income will not be the sole determinant in the decision to relocate, it will certainly feature as a key factor in any evaluation. More important are issues closer to the heart such as personal freedom and safety, quality of life, work environment, health and educational facilities etc, that will impact the legacy for their children and their children's children. For this initiative to succeed, we must package a proposition

that addresses all these issues.

The government has spared no efforts in laying the infrastructure for the K-economy and the creation of a knowledge society. Whilst this new phenomenon will lead to increased productivity and a better quality of life, it also threatens the conventional concept of comparative advantage by changing the paradigms. The government has also undertaken to intensify the development of new growth sectors which characterise the economy of the 21st Century, and create a conducive environment for e-entrepreneurs to flourish. The private sector, as smart partners, must seize the tremendous opportunities that are emerging, and corporations must walk the talk and start to live as knowledge enterprises. Corporate leaders must also lead by example: adopt the principles of knowledge management as a business strategy through innovating, creating and managing intellectual assets; instilling these values amongst their employees; investing extensively in new technology; promoting research and development, and revolutionising their business models.

We must benchmark ourselves against the best in the world. If they can, so can we.