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Boosting domestic growth (HL)

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PUTRAJAYA, Thurs. - Prime Minister Datuk Seri Dr Mahathir Mohamad said tonight the 2003/2004 Budget's main focus would be to enhance domestic economic activities, primary education and further promote women's role in nation building.

Dr Mahathir, who is also Finance Minister, said the Government wanted the contribution from domestic economic activities to be "pushed up" so that the national economy was not over-dependent on external income.

"The focus of our Budget this time around would be on the growth of domestic economic activities so that we are not over-dependent on FDIs (Foreign Direct Investments) or even imports and exports.

"We find that our external trade is double our GDP, whereas ... in developed countries, external trade is only between 20 and 30 per cent of their GDP," he said, adding that various forms of incentives, tax deductions and extension of existing "privileges" would be announced tomorrow.

(Dr Mahathir will table the 2003/04 Budget at Parliament at 4pm tomorrow).

He was speaking at a Press conference after visiting the Finance Ministry's complex for the Budget preparation.

"We are not planning to reduce our trade, but are trying to enhance other contributions towards the GDP," he said, adding the service sector was one of the main domestic economic growth areas.

The Government, Dr Mahathir said, would place greater emphasis on tourism, port activities and transportation as these sectors would effectively attract new businesses.

"We want to develop the service sector so that it could be the foundation for new businesses ... we also want IT (Information Technology) to be widely applied in all new businesses," he stressed.

Dr Mahathir added the Government would also provide bigger allocations for primary education.

"We have had huge allocations for tertiary education before but this time around, we want to give bigger allocations for primary education because we feel that character building of the future generation must start from the primary school level," he said, adding the other pertinent focus of the Budget would be on women's development.

"Allocation for women must be increased as their role in our country is very significant now. Even in the Finance Ministry, the majority of them are women, so we want to give a bigger allocation for them in our aim to develop a happy and progressive family institution," he said.

Going by recent pronouncements, tomorrow's tabling of Budget 2003/04 may see a new variation to the annual ritual - the Government may seek legislative approval for some allocations with tenures that extend beyond next year.

The practice until now has been for the Finance Minister to seek budgetary approval from Parliament for a 12-month period, but Dr Mahathir has suggested that to improve the effectiveness of measures and policies, planning may have to be for a longer period.

This is to do away with the rigidity of having to comply with a calendar-year period, when some projects require more time for planning and implementation.

Another round of tabling and passage by Parliament would be tedious and

bureaucratic, and fly in the face of the need to be nimble and flexible, especially when dealing with uncertainties such as those that have afflicted the world economy this past year or so.

Nevertheless, some elements of Budget 2003/04, such as wage bills and State allocations, will remain on an annual basis as much of what the Government does involves meeting immediate needs.

Much of the speculation in the run-up to tomorrow's tabling has been on the likelihood of a cut in corporate income tax, some say by as much as three per cent, to ensure Malaysia remains competitive to foreign investors.

Some analysts have already factored and tabulated the impact of a tax cut on corporate Malaysia. It would be the first cut in five years; the current 28 per cent tax was brought down from 30 per cent in 1998.

Dr Mahathir had suggested that the thrust of Budget 2003/04 is to make Malaysia competitive for FDIs, especially when the flow globally has slowed while competition remained strong.

China, with its recent entry into the World Trade Organisation, has the potential to divert much global FDIs its way. Malaysia, for example, would not be able to compete against China's advantages of low labour costs, a huge consumer base, rising standard of living, and almost endless possibilities for new businesses.

What Malaysia can sell potential investors are the quality of its workforce and infrastructure, its probusiness policies, stability, and presumably a lower cost of doing business, which could include a lower tax rate.

Even that may not be enough, however, for others in the region, such as Singapore, are also slashing tax rates. If FDI is a concern, Budget 2003 is likely to propose several tax and nontax incentives to attract and retain investments, including making it easier and cheaper for foreigners to set up shop here.

A similar cut in individual income tax for the highest bracket, now at 28 per cent, is possible though less likely, if only to bring it on par with corporate tax.

It is estimated that almost RM50 billion will be collected from income taxes this year, with almost 80 per cent coming from corporate citizens.

Any tax cut would reduce the Government's revenue, which would need to be compensated. A widening of the tax base is likely, with the sales and services tax expanded.

Nevertheless, a full-scale consumption tax regime is unlikely for the moment.

Some economists have suggested reintroducing service tax, say, for credit cards, as well as luxury taxes.

Dr Mahathir is also likely to call for improving the collection of taxes and duties so that everyone helps shoulder the responsibilities of funding the economy.

Many expect Budget 2003/04 to continue in deficit, where Government expenditure will exceed its revenue. While much of the pump priming efforts were announced in Budget 2002, there is expected to be no let-up in the drive to boost economic activities, hence the likely expansionary nature of tomorrow's proposal.

Over the past year, billions of ringgit have been allocated by the Government for social development projects from schools to hospitals to ports, in the effort to stimulate the economy at a time when the private sector was a reluctant investor.

The impact of the stimulus package has yet to be fully felt, some because the larger undertakings need time; others due to red tape.

The business climate has been less than sterling this past year, and is

unlikely to change drastically in the next six to 12 months.

Budget 2003/04 is likely to address the concern and give businesses a better footing for the recovery to come.

The issue of foreign labour may also be addressed, with incentives likely to be offered to businesses to be less dependent on them.

Malaysia's commitment to roll back or remove tariff and non-tariff barriers under the World Trade Organisation and the Asean Free Trade Area will likely see more import duties reduced or eliminated. This has been an annual affair, though this year, the Government will begin to address sectors such as the automotive industry.

The likelihood of consumption tax on vehicle purchases is also likely to offset any reduction in import duties.

Over the past year, the Government has rolled back the petroleum subsidy little by little, and Budget 2003/04 may continue the process, to eventually eliminate it over the next few years.

For the sin sector, alcohol is likely to be spared, although smokers may be hit yet again.

The insurance industry has been asking the Government for higher personal relief to premiums and insurance contributions, but the chances are slim for it could work against promoting private consumption. Furthermore, domestic savings must remain high to finance investment.

However, the likelihood of higher personal and family relief is strong in the computation of individual income taxes, if only to put more money in people's pockets and promote private consumption.