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## Celebrating the Budget

ALL-encompassing. This best describes the 2003 Budget unveiled by Prime Minister Datuk Seri Dr Mahathir Mohamad. Although this may not be the last Budget in which Dr Mahathir will have a hand - in his capacity as Finance Minister and, in the past, as the chief executive officer of the Government - this one looks further forward than its predecessors. True to form, Dr Mahathir has made the Budget a foundation for the New Malaysian Economy: an economy powered by a surge in services and complemented with a compelling rejuvenation of the agriculture and manufacturing sectors, both of which seem to be stuck in varying degrees of mid-life stagnation.

Although some orthodox economists classify services as "invisibles" in the balance-of-payment statistics, their impact is anything but invisible. Services are fertile ground in Malaysia. The availability of capital and the various tax incentives provided for in the Budget will ensure the sector attains its potential as one of the primary growth engines. True, conventional economic theory divides economies into three broad areas: agriculture, industry and services. But the budgetary focus on services is not at the expense of the others. There is room to grow for all three. But while seeking new ways to make services grow, the challenge is also to restore dynamism to agriculture and buoyancy to mass manufacturing through new investments and technology. The crux of it: All areas must be galvanised to stimulate domestic business and industrial activities so that a higher and sustainable level of economic growth will be generated.

The underlying strategy for the shift to domestic economic activities is a subject close to Dr Mahathir's heart: independence. The Budget's overall design is to attain a comfortable degree of economic independence. As observed by Dr Mahathir, the country has been over-dependent on foreign direct investment and external trade. This is an imperative. Some may have forgotten that we are still contending with the yet-to-be-reformed international finance capital - an agenda likely to be forgotten under the rubric of the War on Terror. Unlike developed countries where external trade constitutes between 20 and 30 per cent of the GDP, Malaysia's external trade is double its GDP. The resilience of the economy is dependent on the strength of the domestic industries, measured by their contribution to the GDP.

The reduction of the corporate tax rate from 28 to 20 per cent on taxable income of up to RM100,000 for SMIs with paidup capital of RM2.5 million will ensure this segment continues to form the backbone of the country's industrial efforts. Certainly, the need to expand international trade and penetrate new markets is important, a fact established by the budgetary designs to lower the cost of doing business as a means to enhance Malaysia's competitiveness.

The Government-spending-led expansion must be complemented with aggressive private-sector spending. There is no point in the Government essaying new growth policies if the private sector is reluctant to park its money in them or, for that matter, increase its expenditure. The private sector must take the navigating role in fuelling domestic growth and consumer demand. As was the case in the post-1997 crisis years, consumer consumption is vital. But neither do we want the economy to be led by debt-driven private consumer spending. The population's purchasing power must be increased. But this is contingent on the rise in percapita income which, in turn, is dependent on the tripartite increase in our

productivity, GDP and competitiveness.

Overall, the budgetary development expenditure is aimed at the triumph of brain power over horse power and the superiority of human capital over physical capital. The inclusion of social, including gender, concerns are laudable. Whether this is achievable depends on their implementation and the rakyat's will to make good of what is seen as an excellent Budget. The celebratory mood greeting the Budget is due to the absence of new taxes. But this is tempered by the absence of tax increases in the "sin sector", which we feel should have been slapped on for the sake of the citizenry's well-being.