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LEAD Mahathir-Budget

PM UNVEILS FOUR-PRONGED STRATEGY TO BOOST ECONOMY IN 2003 BUDGET

KUALA LUMPUR, Sept 20 (Bernama) -- Datuk Seri Dr Mahathir Mohamad today unveiled a four-pronged strategy under the 2003 Budget aimed at enhancing the dynamic growth potential of the Malaysian economy against the backdrop of a competitive external environment.

In a Budget which does not contain proposals for any tax increases, the Prime Minister, who is also Finance Minister, instead brought out a host of incentives to enhance the competitiveness of the private sector and egging the civil service towards greater excellence.

Chief among these were proposals to reduce the cost of doing business in the country and providing incentives for various economic sectors in the country so that they can realise their full potential.

"I do not intend to propose any increase in taxes neither introduce new ones. However, to ensure that the government will have adequate financial resources to finance its expenditure, efforts will be intensified to enhance tax compliance," he said when tabling the Budget at the Dewan Rakyat here.

The Prime Minister, who announced that the Malaysian economy would grow by an encouraging 6 to 6.5 per cent next year, said that the proposed 2003 Budget of RM109.8 billion represented an increase of 9.2 per cent compared with the original allocation in 2002. Of this, RM72.84 billion is for operating expenditure and RM36.96 billion for development expenditure.

With revenue estimated at RM89.79 billion, the federal government's overall account is expected to register a deficit of 3.9 per cent of gross domestic product (GDP), lower than the 4.7 per cent in 2002.

In a speech that lasted more than two hours, Dr Mahathir also brought cheer to the nation's almost one million civil servants when he announced that they would be receiving a one-month bonus or a minimum of RM1,200 for their hard work and dedication.

The 2003 Budget focuses on these four strategies:

First: Increasing domestic investment in all sectors with growth potential;

Second: Identifying and venturing into niche areas in the services, agriculture and manufacturing sectors;

Third: Strengthening public sector finance and enhancing efficiency of the civil service; and

Fourth: Nurturing a progressive and harmonious society with high moral values and ensuring the well-being of the rakyat, especially in rural areas.

In describing the 2003 Budget as "rakyat-friendly", Dr Mahathir also called for a paradigm shift in the economic management of the country as it had been overly reliant in external sector developments, foreign direct investment and international trade for many decades, and stressed that growth must be domestic-driven and generated by domestic resources and investment.

Urging Malaysians to emulate China and South Korea in formulating industrial sector strategies, he also urged the local private sector to resume its role as the main driver of economic growth because the government could not continuously implement expansionary fiscal policies.

In an effort to boost small and medium scale industries (SMIs), Dr Mahathir proposed that the corporate tax rate of SMIs with a paid up capital of RM2.5 million be slashed to 20 per cent on chargeable incomes up

to RM100,000 from the present 28 per cent. This measure will result in a revenue loss of about RM270 million to the government.

The 2003 Budget also contained several incentives to assist companies in reducing the cost of doing business to enhance the nation's competitiveness and these also covered foreign businessmen operating in Malaysia. For instance, non-residents would no longer be taxed on income received for services rendered abroad while various Customs regulations would be simplified and standardised to bring about the speedier movement of goods.

As an inducement for Malaysian exporters, Dr Mahathir also announced special rewards for top exporters where they could get exemption on income tax on 30 per cent of the increased exports while those who penetrated new markets would be given exemption on income tax of 50 per cent.

As for enhancing the government's vision of creating a Bumiputera commercial and industrial community, he said that the contract value of each class of government contract for Bumiputera contractors would be raised to between RM200,000 and RM15 million each from the present RM100,000 to RM4 million each.

The government, he said, had not reviewed the rates since the 1970s.

However, he said that the government would also be more cautious in awarding contracts as there were some who sold their contracts to obtain quick profits. These contractors would now be blacklisted.

As for rural development and raising the incomes of factory workers, farmers and fishermen in rural areas, Dr Mahathir said that the government would introduce the "One Village One Industry" concept involving the development of small industries which needed between 10 and 100 workers each.

Rural villages would be re-planned to have retail and coffee shops as well as small factories which can produce marketable products.

Dr Mahathir also said that land development along the lines of Felda was no longer feasible.

The Prime Minister also announced plans to make agriculture the third engine of growth and said that the government would continue to increase investment in large-scale and commercial agricultural activity.

To encourage the consolidation and management of smallholdings, he said that tax deduction equivalent to the amount of investment would be given to a company which invested in a subsidiary involved in the consolidation of the management of smallholders or idle land.

A subsidiary which undertakes such management would also be exempted from service tax.

Tax incentives were also announced for non-rubber plantation companies supplying rubberwood for the furniture industry, food producing and processing companies, and the rearing of chickens and ducks.

Incentives would also be given to companies in the manufacturing sector which undertook high-value activities and companies which moved towards knowledge-based activities.

Special funds also would be set up to help companies expand and accelerate their activities in the tourism and information and communication technology sectors.

Dr Mahathir also announced incentives for foreign companies setting up approved regional distribution centres and operational headquarters in Malaysia.

As for the Islamic capital market, he said that the government would promote the issuance of Islamic private debt securities (PDS) based on the principles of mudharabah, musyarakah and ijarah as well as attract investors, especially from West Asia. Under the government's proposal, expenses incurred on the issuance of Islamic PDS would be allowed as

deduction for income tax purposes for five years commencing from next year.

Dr Mahathir also criticised profit-motivated financial institutions which failed in their responsibility as lenders.

He warned that their reluctance might force the government to find alternatives to ensure adequate financing for investors and it may be compelled to raise the statutory reserve ratio for banking institutions.

-- BERNAMA

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