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Surprises and incentives may be in the bag

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THE Budget 2003 to be tabled in Parliament this afternoon will be a historic one. In addition to outlining the plans, strategies and allocations for next year, the Budget will also outline the plans and projects for 2004. This is the first time that the Budget will span two years, instead of one, as in previous years.

Prime Minister Datuk Seri Dr Mahathir Mohamad said: "We want to identify this year projects for next year and the following year (2004). This will enable us to carry out works which do not require financial allocations such as land reclamation, issuing of tender notices, and preparation of contractors' documents."

As Finance Minister, Dr Mahathir will provide "advance notice" to various departments and agencies on the projects so that they can prepare themselves to hasten implementation of development projects which are often hampered by bureaucratic processes.

The country's economic report card for this year will be presented to Parliament as well as the forecast for 2003, and, to the extent that it is possible, the outlook for 2004. The Finance Minister will also outline the plans, policies and strategies needed to face the challenges of the changed world economic environment.

New strategies and policy priorities are needed especially in the face of a weakening external environment and uncertain and weakening economies of Malaysia's major markets - the US, Japan and Europe.

The Budget strategy will undoubtedly aim to strengthen and bolster the domestic economy, develop on the economic fundamentals, capitalise on its inherent strengths, and encourage increased efficiency and competitiveness. It will be designed to help the country move into new growth areas.

This is necessary for the country to compete more effectively with industrial countries and provide more opportunities for all Malaysians.

With increased competition for foreign direct investments (FDI), the existing incentives will be fine-tuned to make Malaysia the "first port of call" for foreign investors and improve government support mechanisms to make Malaysia competitive and an efficient producer.

It is essential that Malaysia improve its competitiveness and total factor productivity. Malaysia has over the years fallen several rungs in the world competitiveness scoreboard - from 18th in 1994 to 29th in 2001. During the same period, Finland has risen from 19th to third place.

"Anything that can contribute towards economic growth will have to be given sufficient encouragement by the Government," Dr Mahathir said recently. New areas of growth would have to be identified and "we will have to find a way of competing in terms of freight rates, efficiency of handling". Domestic industries will be encouraged to engage in new areas and to export their products and services.

The Government must remain vigilant, and industries and services sectors must be agile even though the economy has emerged in much better shape compared with its neighbours from the 1997-1998 crisis. The economy grew 2.25 per cent in the first half of this year with a spurt of 3.5 per cent in the second quarter against a 1.1 per cent in the January-March quarter. And while a slowdown in the US economy is a real possibility, Bank Negara remains optimistic of Malaysia's economy and expects full-year growth of 3.5 per cent. Privatesector analysts expect higher growth of four to six

per cent this year.

With new and additional competition and the emergence of China for limited foreign funds, Malaysia needs to review its incentives and areas of focus and priority.

The Finance Minister will consider the need to provide the additional "pull" for foreign and domestic investors by providing incentives that will enhance the investment climate and create a more supportive and business-friendly environment.

The IT- and Knowledge-based industries, which can push the economy into the next stage of development, can expect incentives and perks. More funds can be expected for the implementation of ICT- and K-based projects to stimulate these sectors.

The services and tourism sectors - increasingly important revenue earners and growth sectors - are likely to be given special attention and boost.

Even as new growth areas are identified to propel the economy up the development ladder, it is important that the support services are efficient and able to provide the vital backup.

The expansionary Budget is expected to include the two-pronged strategy of encouraging domestic industries in new growth areas and enhancing Malaysia's attractiveness, and creating a more conducive environment for private initiative and incentives for foreign investors.

The Budget strategy will also aim to strengthen government revenues and encourage domestic consumption. With the US set to attack Iraq, the external environment will be even more uncertain and challenging. The corporate scandals in the US and the fall-out coupled with the sluggish US economy mean slower export flow from Malaysia to America - its major export market.

As the Government continues to provide the stimulus, Budget 2003 will once again be a deficit Budget - the sixth deficit Budget - but the deficit is expected to be in the three to four per cent range. The Government with its strong financial position is strong enough to sustain it. The national external debt is manageable as foreign reserves which stood at US\$34.2 billion (RM130 billion) as at the end of August are adequate to finance 5.6 months of retained imports and is 5.1 times the short-term external debt.

Everyone has his or her own wish list. Lower corporate tax, lower income tax, lower import tariffs, reducing trading restrictions, incentives to help businesses recover and expand are just some of them. But the Finance Minister will decide.

Dr Mahathir, known for his unorthodox and unconventional views, is likely to table a Budget containing surprises and incentives for all.