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Mahathir-Budget

DR MAHATHIR UNVEILS 2004 BUDGET WITH BOLD POLICY INITIATIVES

KUALA LUMPUR, Sept 12 (Bernama) -- Prime Minister Datuk Seri Dr Mahathir Mohamad today unveiled the 2004 Budget which features bold policy initiatives that take cognizance of Malaysia's half-a-century of rapid social and economic progress and the well-being of Malaysians in the 21st century.

Dr Mahathir, who is also Finance Minister, said that the Budget had adopted a five-pronged strategy which took into account the performance of the first half of the eighth five-year development plan to ensure the full implementation of development policies and strategies for the country.

The 2004 Budget, with an expenditure of RM112.5 billion, is a reduction of 1.6 per cent from the RM114.3 billion expenditure in the 2003 Budget.

Based on an estimated revenue of RM95.6 billion, the 2004 Budget will see a smaller budgetary deficit as the overall Federal Government deficit is expected to be reduced to 3.3 per cent of the gross domestic product (GDP) compared with 5.4 per cent in 2003.

Saying that the thrust of the 2004 Budget would be to have continued policies and strategies for stimulating and accelerating domestic economic activities and greater participation of Malaysians in economic growth, Dr Mahathir emphasized that the private sector would resume its role as the engine of growth in the nation's economy.

He also said that the government would implement a monetary policy that could support and harness private consumption and enhance the nation's competitiveness to enable Malaysia to become a truly trading nation.

Also, the government will implement fiscal consolidation towards achieving a balanced budget in the near term and strengthen the social agenda of a caring society to enhance the quality of life and well-being of Malaysians as part of the 2004 Budget policy initiatives.

His 98-page Budget speech contained several measures and policies aimed at developing greater excellence in a number of key areas like trading, manufacturing, agriculture, education and tourism.

Dr Mahathir also stressed on the importance of creating and designing more Malaysian brand names that could be marketed abroad since many well-known brands that have Malaysian components were not regarded as Malaysian products.

"It is therefore, not impossible for Malaysian brands in our language to be accepted globally," he said.

To further promote local brands, the government will further increase the Fund for the Development and Promotion of Malaysian Brands by another RM100 million after an initial allocation of RM100 million.

Elaborating on the strategy of promoting the domestic private sector as the engine of growth, Dr Mahathir said that while a major contributor to the 21 per cent growth in private sector investment in the 10 years prior to the 1997-98 financial crisis was foreign direct investment (FDI), the main contribution of FDI had only been in terms of job creation.

This was because foreign companies in Malaysia, he said, finance their investments largely from Malaysian domestic sources and as such the inflow of foreign capital into the country was actually smaller than perceived.

Furthermore, these companies did not produce Malaysian brands, have low backward and forward linkages and utilise foreign technology developed abroad, he said.

"But today, since Malaysians are fully employed, it only benefits

foreign workers. We must change all these and be bold enough to transform the economy from being FDI-driven to domestic-led investment.

"We must act immediately to make a quantum leap to become the nation's investor, producer and exporter. Our domestic private sector must develop and produce Malaysian brands of world class quality that are able to penetrate international markets.

"We must export goods, which we produce ourselves. We must promote private sector initiatives to produce local products with high value creation, beginning from our own research findings to utilising local components as well as domestic logistics. This will ensure wide spin-offs and higher wealth creation for all Malaysians."

To help in the promotion of Malaysian products abroad, Dr Mahathir said that Matrade would be corporatised and the government would provide a launching grant of RM100 million for it to undertake foreign roadshows and bring in private sector expertise, including expatriates in the promotion of exports.

Matrade, he said, would immediately undertake export promotion on wheels to West Asia and Africa.

Dr Mahathir said the government would review its procurement system where the use of local content and value-added would be given due consideration in the tender evaluation in order to provide a market base for local entrepreneurs and to further promote local industries.

At present, the evaluation of government tenders focuses on only the technical and financial aspects.

"The agenda to promote domestic industries is of utmost importance. As such, the government will require Tenaga Nasional, Telekom, Proton, Petronas as well as the stable of companies under Khazanah and Permodalan Nasional Bhd and other government companies to spearhead the development of domestic products and technologies in their respective sectors," he said.

Dr Mahathir also touched on the much-awaited policy on cars following the liberalisation of the automotive sector under the Asean Free Trade Area (Afta) and said the government would continue to promote domestic heavy industries.

He said that consumers had been postponing their purchases of cars and sales had been declining since February 2003.

The government, he said, had indicated that prices of cars would not be lowered even after the reduction of import duties on cars from Asean countries.

"To mitigate the loss in revenue, the government proposes to levy excise duties on imported cars when import duties are reduced from Jan 1 2004. Therefore, consumers are encouraged to purchase cars now for themselves and their families," he said.

Dr Mahathir, who appeared upbeat and cheerful in his presentation, also spoke on Malaysia's prowess in oil exploration and production and the need for another consortium to undertake oil exploration, production and refining.

He said the government could allow for another consortium to undertake the development of marginal fields so as to gain the confidence of other countries.

As for the promotion of Malaysian companies abroad, he said the quality and ability of these companies were of paramount importance.

"We must not allow companies which do not have the capability to seek contracts and business opportunities abroad so as to sell them to other companies. This will only result in the erosion of confidence in Malaysian companies as well as our nation," he said.

In an effort to encourage small and medium industries increase their investments, the government has proposed to increase the threshold of

chargeable income to RM500,000 from RM100,000 to a corporate tax of 20 per cent as announced in the 2003 Budget.

With this increase, SMIs will have an additional RM322 million for reinvestment.

The government also proposed pioneer status with tax exemption of 70 per cent on the increased income from reinvestment for a period of five years and investment tax allowance (ITA) of 60 per cent on the additional investment for a period of five years.

Companies producing goods using oil palm biomass will see the rate of income tax exemption under pioneer status increased to 100 per cent for 10 years from 70 per cent for five years previously and increasing the rate of ITA to 100 per cent for five years from 60 per cent previously.

For existing companies using palm oil biomass, they would have a pioneer status incentive with tax exemption of 100 per cent for 10 years on the increased income from reinvestment and ITA of 100 per cent for five years on additional investment.

Companies operating in Sabah, Sarawak and the Eastern Corridor of Peninsular Malaysia will see their rate of income tax exemption under pioneer status raised to 100 per cent from 85 per cent and an increase in the rate of ITA to 100 per cent from 80 per cent. This allowance can be fully deducted and not limited to 85 per cent of the statutory income.

Dr Mahathir also announced that individuals would also be exempted from tax on income remitted from abroad as presently enjoyed by companies to encourage them to remit their income from their investments or savings abroad for domestic investment.

In addition to financial facilities provided by the government under the package of new strategies to help small and medium scale industries, Dr Mahathir said banking institutions must be proactive in providing loans to small and medium businesses.

Saying that the government was concerned over small and medium businesses facing difficulties in servicing their loans with financial institutions, he said Bank Negara Malaysia had established a scheme to restructure and reschedule loans for all types of loans and credit facilities by borrowers in the tourism sector.

In addition, the government will assist SMIs to address their non-performing loans with financial institutions via a mechanism similar to the Corporate Debt Restructuring Committee. In this regard, the BNM will establish a SMI Debt Restructuring Committee.

To further promote the development of private venture capital companies, the Venture Capital Fund for Malaysian Venture Capital Management (MAVCAP) will be increased by RM300 million, thereby increasing the total amount of funds under MAVCAP to RM800 million.

In addition, the government has established the Malaysian Debt Venture with a fund of RM650 million and the Malaysian Technology Development Corporation with a fund of RM1 billion to finance investment in areas such as logistics and modernisation of agriculture.

Income tax deduction will also be given to venture capital companies equivalent to their investments in venture companies provided the shares in venture companies are disposed of through initial public offerings.

To further enhance this incentive, tax deduction will be allowed for shares disposed of through other approved exit mechanisms such as put option and management buyout.

Besides this, the method of computing the 70 per cent investment in venture companies will be relaxed to take into account the amount of funds invested of the total funds of the venture capital company.

The government also proposed that venture capital management be given tax exemption on income received from profit sharing agreements with

venture capital companies.

Dr Mahathir also said the government had further relaxed equity conditions apart from providing many tax incentives to attract services-oriented companies such as operational headquarters (OHQs), regional distribution centres (RDCs) and backroom outsourcing operations by multinational companies (MNCs) to operate in this country.

In an effort to further enhance the incentives for OHQs, the government proposed that income from OHQs from the provision of services to their related companies in Malaysia, would be given income tax exemption not exceeding 20 per cent of its total income from its global operations. This is similar to the incentive currently enjoyed by RDCs.

To further stimulate the services sector, he announced the setting up of one-stop agency to hand-hold and guide investors to obtain approvals from various authorities with a view to expediting their project implementation.

In view of the Multimedia Development Corporation (MDC), the government would expand its role to become a one-stop agency along the lines of the Malaysian Industrial Development Authority (Mida) for selected services sectors.

He said the MDC had successfully attracted many foreign companies to provide shared services, especially for IT support services for their global operations, including information and data processing centres.

Dr Mahathir said in line with the objective of making Malaysia a regional financial centre, the government would allow Labuan offshore companies to establish their marketing offices in Johor Bahru, which was rapidly developing with the increasing number of MNCs that had relocated their operations there.

"This measure will also complement the government's efforts in making the Port of Tanjung Pelepas and Senai Airport as an international logistics hub."

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