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Private sector all set to be the engine of growth again

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CIVIL servants may get their bonuses, but smokers are likely to get it in the shin and corporations may not get the income tax cut that they have been hankering for.

These may be the highlights of Budget 2004 to be tabled in Parliament today, but there is more to the annual ritual this time around than the fact that it would be Prime Minister Datuk Seri Dr Mahathir Mohamad's last Budget.

Sources suggest that this year's Budget will expand beyond the operational needs of next year; it will instead try to map out a longer term strategy for the nation's economy.

Budget 2004 is said to be looking at initiating structural changes to the economy, from the sources of its revenue to the delivery system to make the nation more competitive, as well as to review and finetune current practices to meet the demands of the future.

After a couple of years of the Government priming the economy - through stimulus packages brought about by an uncertain global economic climate that began with the Sept 11, 2001 attacks in the US all the way to the outbreak of the Severe Acute Respiratory Syndrome which has ended - the time has come for the private sector to again be the engine of growth.

Furthermore, the Government can no longer be leading the economic charge without jeopardising its financial situation, which has been in deficit for a few years now.

A balanced Budget, initially targeted for 2005, may not be attained, but the Government is unlikely to allow it to be stretched a few years more.

Based on the strong performance of the first half, the economy, as measured by the gross domestic product, is expected to be on track to meet the forecast 4.5 per cent growth. A strong base this year could see GDP growth even surpassing the International Monetary Fund's forecast of five per cent for next year.

Much of this year's economic strategy will be in strengthening the base of the economy and stimulating economic activities among the small and medium-sized enterprises, which has been estimated to constitute more than 90 per cent of companies in the manufacturing sector.

SMEs, which have been described as the backbone of the economy, got an eight percentage point cut in corporate income tax in this year's budget to 20 per cent, but because of the pivotal roles expected of them, further incentives may be in the offing in Budget 2004.

The competitive nature in the quest for Foreign Direct Investment is expected to be addressed with emphasis on weaning dependence on pure manufacturing FDI to those with value added activities, such as research and development.

China threatens to eclipse all in offering a cheap labour-intensive manufacturing destination with its entry into the World Trade Organisation in 2001.

This has put to pasture the theory that a lower corporate tax regime could be an incentive for FDI, hence Budget 2004 could probably let corporate income tax remain at 28 per cent.

Nevertheless, the quest of FDI would still continue with Budget 2004 probably outlining further incentives for the services sector. It could make Malaysia a more attractive destination for the relocation of operational headquarters as well as backroom operations.

Government sources suggested that a one-stop agency would be set up to cater specifically to attract FDIs in the services sector. As a result, the infrastructure as well as tariffs in telecommunications, a prerequisite in the services sector, could be made more attractive.

Over the past few years tourism has gained prominence as a foreign exchange earner thus further incentives for the sector is naturally expected.

In diversifying the sources of growth, much has been said about agriculture to be the third leg of the economy. While Malaysia leads in commodity-based agricultural products, it nevertheless lags in food-related ventures. Budget 2004 is expected to give further boost to the sector by intensifying efforts in import substitution as well as promote export.

Much as it has been said about Budget 2004 being formulated with the general election, which has to be called within the next 12 months, in mind. However, the goodies that will come in terms of tax cuts or tariffs rollback for goods and services are more likely to be due to Malaysia's commitments to the various multilateral trade deals, such as the World Trade Organisation and the Asean Free Trade Area agreements.

But the whether Government would take this opportunity to address the issue of car tariffs to comply with Afta in 2005 is still a toss up depending on the state of the domestic automotive industry.

Budget 2004 is expected to address the quality of life the people, from the quest to a better living environment to giving them a leg up in life through allocations for rural folks as well as better educational opportunities for all.

For example, the cost of living and housing in urban areas have turned quite prohibitive for many. It is estimated that within a few years about a quarter of the country's population will be residing in the greater Klang Valley area.

However most of the established residential areas are beyond the means of most, especially those starting out or in the lower income groups, that the Government would probably have to step in to help lest a large portion of the rakyat feel displaced.

Along this line, sources said the Government could be looking at resolving the hundreds of abandoned housing projects through the creation of a Danaharta-like institution that will be given enough powers to cut through the legal tangles that is characteristic of such failed projects.

Sources said there is less likelihood of further cuts in Employee' Provident Fund contributions since the Government is said to be quite comfortable with pattern of domestic consumption, as well as further cuts could be counter productive to savings.

A cut in individual income tax, or relief, could be forthcoming, if only for the lower income group.

It is estimated that annually 19 billion sticks of cigarettes are sold in the country, a large number by any measure. The health impact of smoking and Malaysia's imminent ratification of an international tobacco treaty makes a substantial increase in the tax and duties for tobacco more certain than ever.