

KLIFD - Another Glossy Govt-Sponsored Project
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After the KLIFD project was announced more than a year ago, the Prime Minister, Najib Razak launched the rebranded financial district, "Tun Razak Exchange" (TRX). The mega property development project is expected to have a gross development value of RM26 billion.

Najib said that "what has began as an idea for KLIFD has evolved into something larger and more inclusive". However, nothing in his speech indicated how the mega-project has become anything more inclusive. Instead, he hinted at how the project will become even more exclusive with more promised incentives to those intending to participate in the project.

KLIFD's exclusivity was already established when the Prime Minister who also holds the portfolio of the Finance Minister introduced a 10-year 100% tax exemption for qualified companies located within the KLIFD as well as a slew of other benefits such as stamp duty exemption on loan and service agreements, industrial building allowance and accelerated capital allowance for companies in his Budget speech last year.

In fact, property developers within KLIFD gets exceptional treatment with 70% income tax exemption for 5 years.

Such incentives, especially that for property developers are unheard of and it only goes to show how the KLIFD project is difficult to get off the ground because of a less than viable concept. And it appears that such lucrative incentives are insufficient as Najib promised further incentives through "a comprehensive review of business regulations in support of TRX".

We fear that the KLIFD will suffer a similar fate as previous mega-property based "themed development" projects launched by the BN government. The entire KLIFD concept is founded on the assumption that financial institutions and related professional services needs to be sited a stone's throw away from one another.

However, such an assumption is completely flawed as telecommunications technology, video-conferencing facilities as well as secure and instantaneous electronic transactions obliterates the need for physical proximity. There is little or no added synergy for example, for the Maybank headquarters to be shifted to the KLIFD compared to its current venue, with the exception of potential tax benefits.

Hence, instead of actually promoting the financial services industry in the country directly, the Government, having already provided the prime land to 1MDB without any open bidding, is further providing unfair crutches for the latter to succeed in the KLIFD real estate play. Such incentives however, given the experience with the Multimedia Super Corridor (MSC), Bio-Valley and E-Village however, may not be sufficient to ensure its success.

The Government has described the role of KLIFD is to turn Kuala Lumpur into a "new icon for the financial world", "the global financial city of choice" and "bring together world-class names to operate closely in a physical location." Similarly, the Bio-Valley, E-Village and MSC

were all sold to Malaysians as transformative projects in their respective sectors and launched with much fanfare.

The Government must learn from its failures of the past. The decision of global financial institutions to site their offices in Malaysia will not be based on short term benefits as a result of the choice of real estate. It will instead be based on the demand for its services and funds, the sophistication of the market instruments and the openness of the economy.

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