

INSTITUTIONAL REFORMS MUST REMAIN HIGH ON GOVT AGENDA

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Diversify and broaden the country's revenue base and cut back reliance on oil-related revenue

“WITHOUT a vision, the people perish”, so goes a wise saying. Recently, certain quarters have accused the government of being directionless. However, such criticism is misplaced.

While tabling the 2019 Budget in parliament, Finance Minister Lim Guan Eng expressly stated the government's vision. It wants Malaysia to become a roaring “Asian Tiger” again, as was the case during the 1990s. The government will be clean, transparent and citizen-centric. It will build a strong and competitive economy.

To translate this long-term goal into reality, Lim detailed three focus areas — socio-economic wellbeing of the people, entrepreneurial and innovative state, and institutional reforms. Twelve key strategies for 2019 were detailed to flesh out the actions to be taken in these focus areas.

Three factors will make the job harder. First is the quality of the business environment. This is a prerequisite for a competitive economy. Public anger over corruption installed a new government without violence or bloodshed. That indeed augured well for the business environment.

However, the euphoria of snatching Putrajaya from a corrupt government has now given way to political infighting within the ruling coalition. These political ructions and aspersions over national-leadership succession could raise the angst of investors and discourage them from pouring money into the country; for political certainty is part of their equation on risk management. If investments stay away or plunge, then that will impact negatively on economic growth and people's wellbeing.



The Pakatan Harapan government, led by Prime Tun Dr Mahathir Mohamad, must fulfil the promise of institutional reforms as touted in its election manifesto.

The ruling coalition, therefore, should project a united front in the interest of growing the economy.

Second, and an even tougher fix, is the budget deficit that threatens to widen in the face of falling oil prices. For every US\$1 drop in oil price from the projected US\$70 billion under the 2019 Budget, the government will lose RM400 million in oil-related tax revenue. Should oil prices hover around US\$50 throughout the year, the government stands to lose as much as RM8 billion. It will widen the budget deficit from the projected 3.4 per cent of the gross domestic product to as large as 3.9 per cent with deleterious consequences to the country's credit rating and borrowing costs.

Such a deficit is even more unwelcome as the country has been posting budget deficits for the past 20 years since the Asian financial crisis in 1998. Their prolonged occurrence signifies that the government is living beyond its means and will have to borrow to plug the deficit. One alternative is to tighten the public-expenditure belt. But that will come at the cost of compromising efforts at improving people's lives and restoring vibrancy to the economy.

A viable alternative to overcome the revenue shortfall is for the government to diversify its revenue base. Our reliance on oil-related tax revenue has lately increased to 20 per cent of total revenue when it was only around 15 per cent in the recent past.

With the Petronas' special one-off dividend of RM30 billion, the share of oil-related revenue will spike to a whopping 30 per cent.

We need to wean ourselves from this excessive reliance on oil-related revenue as the vicissitudes of oil prices will invariably spook our public finances. Broadening the revenue base should contribute to the narrowing of the fiscal deficit and check any motivation of ratings agencies to downgrade our credit profile. We hope that the tax-reform committee will offer solid suggestions to enlarge the government coffers.

One suggestion is to introduce user-charging. Where it is equitable to do so, the government should charge users the full cost of its service provision. For example, charging RMI for outpatient services, except for the poor, is ridiculous. More so when emergency services, for example, can cost well over RMI,200 in trauma centres of public hospitals. Private wings in public hospitals, where charges reflect as much of the full cost of service provision, are an example of recouping much of the cost of service delivery.

Another way to conserve cash is for the government to partner with private service providers in delivering public services. Government agencies can share services such as information technology or outsource work for which it is not efficient. These will help government save at least on overheads.

In the 2019 Budget, the government outlined its intention to

restructure government-linked companies and to dispose of the non-strategic ones. This, too, will bring in the much-needed revenue to the public purse.

The third factor is that the government has to build trust among the populace that seems to be growing wary of the government's ability to deliver on its election promises. Institutional reforms that were much touted at the outset should be given a booster shot. They must remain high on the government agenda.

Prime Minister Tun Dr Mahathir Mohamad did confess that Pakatan Harapan went to the polls without much confidence of winning it. As such, not much thought was given to the workability of its election manifesto. More so, it was not privy to the dire state of public finances that it subsequently inherited.

Notwithstanding, the public has come to accept that the government will fulfil its promises. So the next step is to endeavour as much as possible to discharge them. Where it cannot, the government should be open about it. It should show why full achievement is not possible and outline alternatives as restitution.

Our economy is stagnating and the global economy softening. All parties should galvanise their strengths to ensure our economy is on a surer footing.

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