forum

Malaysia must find its niche in regional economy

MY Say

BY KHOO CHUAN KEAT

The global landscape is not pretty. The US economy is under-performing, the euro sovereign debt crisis appears to be deepening and natural disasters in Japan and New Zealand have caused disruptions to the world supply chain and inflationary pressures in many countries.

However, it is not all doom and gloom because the Malaysian economy registered a decent growth of 4.4% in 1H2011 despite the challenging external environment. Growth momentum is expected to pick up in 2H2011, leading to economic expansion of 5% to 5.5% in 2011 and 5% to 6% in 2012. This projection is supported by resilient private consumption, strong private investment, an acceleration in public infrastructure projects and sustained and strong commodity and resource-based manufactured goods exports.

It was against this backdrop that Budget 2012 was tabled on Oct 7. Despite being labelled "National Transformation Policy", the budget had a strong socialist flavour, featuring a variety of economic measures designed to propel the nation forward amid lingering global economic uncertainties and fears of double-dip recession.

Accelerating investment

With 2020 barely eight years away and the country still on the mend following the global financial crisis, we need to slip into high gear to achieve our lofty goals.

Some of the measures proposed under this strategy are:

- Further liberalisation of the services sector to allow up to 100% foreign equity participation in selected subsectors;
- Implementation of high-impact development projects under the second rolling plan of the 10th Malaysia Plan;
- Leveraging niche industries such as tourism and banking and finance as well as advancing the agriculture, Islamic finance and construction sectors; and
- Strengthening small and medium enterprises (SMEs), developing the local franchise industry and continuously promoting green technology.

When Singapore announced its budget earlier this year, its strategy was to build for the future. Whilst part of its budget dealt with immediate issues, the core agenda was to focus on the medium to longer term. The emphasis was on growing the national economy and the incomes of its people through upskilling, innovation, and increasing productivity as well as strengthening the societal agenda in terms of education, home ownership and top-quality, long-term healthcare.

Having fully recovered from the financial tsunami, Hong Kong focused on the medium to longer term with strategies aimed at battling inflation and getting ahead of a property bubble — property prices have risen some 24% — in its recent budget.

Malaysia has an advantage in the Islamic finance and halal industries. As at the end of 2008, Islamic banking accounted for 18.8% of the country's total banking assets while takaful made up 7.7% of total insurance and takaful industry assets. As at end-2010, these figures had increased to over 20% and 8.7% respectively. While such growth is commendable, Malaysia needs to continuously introduce new initiatives to entrench its position as the global hub for Islamic finance. We are now the world's largest sukuk issuer with our share of the global sukuk market standing at 62%.

In its recent budget, Hong Kong also announced increased efforts to promote and develop the island city into a global financial centre, including the development of an Islamic financial platform, although few details were revealed.

As for the halal industry, Malaysia has always been at the forefront, with Indonesia being potentially the only major competitor in the region. Although Malaysia is also probably the only country to provide full support for the promotion of halal products and services, we need to up our ante as Indonesia is now hot on our heels.

Tourism, which attracted 25 million foreign visitors and generated a revenue of RM56 billion, continues to be a major source of income for Malaysia with its potential yet to be fully realised. In Budget 2012, plans were announced for the redevelopment of Pulau Langkawi to attract visitors back to its shores while tax incentives for new four and five-star hotels in Peninsular Malaysia will hopefully attract more high-spending tourists to boost the industry.

Both Hong Kong and Singapore did not focus much on tourism as these cities are already major tourist destinations. However, Malaysia with its lower costs of healthcare treatment and diversified tourist showcases, can do more to internationalise its attractions and promote and develop the country as the regional destination for healthcare services.

SMEs contribute about 31% to the country's GDP. With this in mind, the government announced a slew of measures, including a syariah-compliant SME Financing Fund, SME Revitalisation Fund, SME Emergency Fund and tax deduction on franchise fees to strengthen our SMEs. An allocation of RM2.11 billion has been set aside for the three SME funds.

Singapore proposed a one-off SME cash grant in its budget while Hong Kong reaffirmed its support for SMEs through its Special Loan Guarantee Scheme. This scheme has benefitted over 20,000 SMEs since its introduction in December 2008.

Nurturing human capital

The development and retention of our human capital are key objectives to support and enable Malaysia to attain its goal of becoming a high-income economy. Hence, priority has been given to the development of the education system to produce a talented, highly skilled, creative and innovative workforce with allocations for the construction, improvement and maintenance of schools, quality and affordable access to education, the abolition of school fees and tax breaks for private schools registered with the Ministry of Education.

These commendable measures will bear fruit in the longer term but more direct personal tax incentives are required to win the immediate war for talent. The top personal income tax rate in Malaysia is 26% while the rates are 20% and 17% for Singapore and Hong Kong respectively. On a dollar-for-dollar basis, Singapore and Hong Kong remain well ahead in terms of net disposable income and quality of life.

The total proposed allocation for Budget 2012 is RM232.8 billion. The biggest question now is, how will this hefty war chest be funded? The increase of 5% in real property gains tax for disposals within two years, additional 1% EPF contribution for employees earning below RM5,000 monthly and so on is small change.

According to projections, direct tax is projected to increase significantly by 22.1% from RM79 billion to RM96.5 billion while individual income tax collection is projected to increase by 10.6% from RM17.8 billion to RM19.7 billion. Unless businesses and personal incomes grow exponentially in 2011, the projected revenue collections will be severely tested.

Hence, despite the apprehension of the rakyat, the government needs to have the political will and courage to hasten the implementation of the Goods and Services Tax (GST), which has already been delayed several times. Where it has been implemented, GST has generated huge recurring income for the government. Studies show that the prices of essential goods and services drop after the transition years.

Easing inflation and enhancing well-being of the people

This strategy is geared towards providing a feel-good factor. However, to win the hearts of the rakyat, more needs to be done to reduce crime, ensure personal safety, eradicate hardcore and urban poverty, increase homeownership, expand public healthcare facilities and improve the public transport system. The social and economic needs of the rakyat go beyond cash handouts.

Although the maximum house price in the My First Home scheme has almost doubled, realistically, those earning RM3,000 and below cannot afford a house that costs RM400,000, thus raising doubts about the effectiveness of this measure.

Green initiatives are also a must to protect and preserve our environment, which is fast deteriorating, and Malaysia needs to step up to bat for the sake of our future generation.

Measures in Budget 2012 are expected to make the civil service more dynamic, responsive and centred on excellence as well as radically change recruitment, placement as well as career development. We hope these measures will be diligently implemented with strong key performance indicators because a nation cannot realise its full potential without an efficient and effective civil service.

One of Singapore's core objectives is to build an inclusive society, where lower-income citizens can aspire and work towards a better life and everyone can contribute to the country's progress. The incentives proposed are positive and realistic, ranging from assistance in education, employment and homeownership to subsidies for preschool education and childcare fees and personal tax rebates.

In Hong Kong, the government was more conservative in its handouts and fiscal incentives, with some improved benefits for the less privileged members of the community.

Towards economic recovery

Budget 2012 drew a mixed reaction from the public. The lower-middle and low-income groups are generally happy with the basket of goodies but there was almost next to nothing for the middle and high-income groups, which contributed the bulk of the RM17.8 billion individual income taxes collected in 2010. While we applaud the social agenda, which is long overdue, the rest of the initiatives announced leave much to be desired.

Over the years, Malaysia has progressed from an agricultural economy to an industrial nation. Lately, however, many multinational corporations have moved their manufacturing plants to lower-cost countries such as China, Vietnam and Indonesia; talent is leaving; and foreign direct investment is dwindling. Apart from Islamic finance and the halal industry, Malaysia needs to find its niche in the regional economy or be left behind as our neighbours are competing for the same pool of investment and talent.

The government can only do so much; the private sector as well as the rakyat must join hands in a smart partnership to realise a brighter future for all Malaysians irrespective of race, religion and social status, in keeping with the spirit of 1Malaysia. Only then can we truly realise our full potential as a nation. E

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