

Building blocks for TN50

The last one week has seen wide-ranging discussion on Budget 2018 — a surprisingly expansionary budget overall, which introduced tweaks in terms of fiscal policy and, of course, various measures to deal with the rising cost of living and well-being of the rakyat.

What stood out for me is certainly the discussion on a number of important building blocks as we chart the path for Transformasi Nasional 2050 (TN50).

TN50, which was introduced by the government in Budget 2017, is a plan designed to propel Malaysia forward beyond Vision 2020. Some may argue that it is still premature and that concrete steps for something so distant would be difficult to design and execute. However, given the pace of global disruption, it is only right that we set the building blocks in place now. After all, TN50 requires certain fundamental mindset changes, and such changes can only be implemented through various holistic measures involving a broad range of impact areas.

Developing human capital

Malaysia has a distinct advantage over its neighbours as an investment destination, given its low-cost operating environment and the availability of a multilingual workforce. However, this advantage will be eroded by growing concerns over the ability of the existing talent pool to address tomorrow's job market requirements.

Budget 2018 places significant importance on technical and vocational education and training (TVET), as demonstrated by the RM4.9 billion allocation. The consolidation of TVET institutions under a single agency within the purview of the Ministry of Human Resources is a step in the right direction as quick, effective responses to changing market requirements in the digital age are necessary. More is expected in this area as demand for talent in advanced manufacturing, information technology and healthcare intensifies.

Switzerland's vocational education and training (VET) system, for example, is critical to the Swiss economy and is well respected globally. As a nation where 70% of its students opt for VET training, Switzerland has the world's fourth highest per capita income.

Although Switzerland has a very different academic system from ours (many traditional university courses are offered through the VET system instead of universities), VET does provide a viable means of better developing the younger generation to suit future job needs. In the Ma-



POST-BUDGET
2018

BY JAGDEV SINGH

laysia context, we require a mindset change as many Malaysians still consider a traditional university education as the more prestigious choice.

Manufacturing of tomorrow

With the increasing emphasis on innovation and research and development, we need to change governmental policies to provide a more conducive environment to corporates to further invest in advanced manufacturing technology.

In addition to extending accelerated capital allowance (ACA) claims for labour-intensive industries, Budget 2018 made the right move in introducing ACA for investments in various technology drivers. However, while tweaking of incentives may give Malaysia short-term attractions, we need a total revamp of the ecosystem to cater for the needs of advanced manufacturing. This includes the tax system, human capital development, infrastructure and regulatory approach for certain industries.

Don't get me wrong — certain aspects of conventional manufacturing are still necessary to ensure that we have a complete supply chain in some of the more strategic areas of the economy. However, manufacturing of the future is going to be very different and would require a whole new approach for industries, such as automotive and agriculture, to consider Malaysia as a location of choice.

Innovating through the sandbox

In this ever-changing world, the conventional approaches to transacting are evolving at a rapid pace and will continue to do so. In light of this,

expanding the regulatory sandbox is timely.

The regulatory sandbox is a well-defined space in which companies may experiment with innovative solutions in a relaxed regulatory environment for a limited period. This is particularly important for the financial services industry as it allows regulators to monitor experimentations and safeguards consumers as it limits the impact of the experiments to a specific target group.

Malaysia is one of the first few countries to adopt the regulatory sandbox concept, after the UK introduced it in 2015. Singapore, Thailand, Australia and Hong Kong have announced their own versions of the sandbox as financial institutions in the region increase innovation and research activities in relation to fintech.

Fintech is the starting point for sandboxes globally, but we should consider expanding the sandbox to other industries to encourage innovation as advanced technology and automation start replacing traditional services sectors like healthcare and transport.

Housing

TN50 needs to recognise social development and change in demographics, including the ageing population. While we have pushed the housing agenda quite strongly, it is time to look at it from the social perspective rather than just supply-and-demand dynamics.

Homeownership remains, as always, an issue, and we expect to see this continue as we head down the TN50 path. Is house ownership really necessary? Budget 2018 takes the first step in

CONTINUES ON PAGE 69

Some form of rent control in designated areas can help

FROM PAGE 67

encouraging a shift from homeownership to renting by providing partial tax exemption to property owners for rents up to RM2,000.

A more significant move would be to introduce some form of rent control in designated areas. This is an approach taken in many developed countries, which have schemes for affordable rentals. Rent regulation laws, for example, are implemented in many member countries of the Organisation for Economic Co-operation and Development. Rent regulation, however, could discourage investment in the rental market, and there needs to be a balance between regulating prices and ensuring that supply is available.

Although there are continuous efforts in improving house ownership rates in the B40 and M40 groups in Budget 2018, it is time to look at this more holistically. Housing needs will certainly evolve as individuals go through different phases of life. The requirements of a young professional would differ quite materially from that of a young family, and such changes do happen within a relatively short period. There should be a mechanism within the existing scheme to allow for conversion of one property to another for each phase, and this can be best achieved by establishing a central agency to deal with the housing requirements of the rakyat.

In summary, change takes time. Putting in the early building blocks is vital in ensuring the desired outcomes for TN50. I see these as great measures, but each and every one of us must play a role in helping us move one step closer to achieving these goals.

E

Jagdev Singh is a tax leader at PwC Malaysia

pwc