

“ENHANCING QUALITY DEVELOPMENT – COMMITMENT TO EXCELLENCE”

Memorandum to the Ministry of Finance for the
Budget 2006
Proposals submitted by Dato' Dr. Michael Yeoh
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Executive Summary and Key Highlights

1. Introduction

1.1. The Government led by Prime Minister Dato Seri Abdullah Ahmad Badawi has done well and should be congratulated for steering the National Economy to achieve a GDP growth of 7.1% for 2004. Strong growth in key sectors like manufacturing up 9%, services up 6.3%, agriculture up 7.7%, mining up 4.7% demonstrates the resilience and diversity of the Malaysian economy. The 33% increase in total trade last year compared to 2003 figures is yet another proud achievement, with the record high of RM880 billion in total trade.

1.2. Going forward, the international and regional competitive landscape looks more challenging. The Government is prudent to target a lower growth for this year, amidst more difficult external conditions. The focus on enhancing quality development and the emphasis on excellence is indeed apt and timely. However, the commitment to excellence must not remain a mere cliché but translated into action and reality through a **National mindset change that will have zero tolerance for mediocrity**. Any tolerance for mediocre performance in any sector and at any level will make the commitment to excellence sounds like mere platitudes.

2. Strategic Positioning of Malaysia – A Roadmap to Excellence

2.1 Budget 2006 should lay out a **National Roadmap Towards Excellence**, with **clear targets defined and comprehensive and sustainable action plans developed**. A

Central Monitoring Unit should be established to effectively monitor the implementation of the **National Excellence Strategy** or roadmap towards National Excellence.

- 2.2. The National Excellence Strategy should address the **strategic positioning of Malaysia in determining the key areas we have chosen to excel in**. To achieve excellence, we need to have a **strategic focus**. We need to determine where our **competitive advantage lies** and capitalize on our core strengths. Budget 2006 should therefore position Malaysia strategically as a **National Hub within ASEAN and East Asia** where business will be encouraged to thrive. To do so, we need an **effective marketing strategy** and a comprehensive approach to **manage and change perceptions** so that Malaysia becomes a natural center for business, investments and opportunity development in the region – the platform for foreign businesses to co-venture with Malaysian businesses to invest in ASEAN and the wider Asia market.
- 2.3. The National Excellence Strategy which we propose be the cornerstone of Budget 2006 should **lift Malaysia's growth potential through value creation** by leveraging on our natural endowments. Greater focus ought to be concentrated on making Malaysia a successful **Regional Hub for Business, Services, Logistics & Transport, Education and Medical Tourism**. Budget 2006 should **facilitate value creation by Malaysian businesses**.
- 2.4. In addressing the concerns of foreign businessmen, greater attention should also be given to making Malaysia safe. **Crime and security are growing concerns**. The Royal Malaysian Police should be given more resources to fight crime as the growing crime rate and sense of insecurity loses Malaysia's attractiveness as a Regional Hub. **The PDRM should also be developed into a world-class police of excellence** as part of the National Excellence Strategy.

2.5. Whilst Government Linked Companies (GLC's) are focusing on improving performance through adoption of performance management systems and Key Performance Indicators (KPIs), the same cannot be said of the private sector. The performance culture does not sufficiently permeate the business community. Budget 2006 should encourage businesses to focus on performance management and adopting a culture of excellence. One way is to allow **one-time double tax deduction for expenses incurred by companies in implementing Performance Management System up to a limit of RM50,000.**

3. **Promoting Spirit of Enterprise and Inventiveness**

3.1. Budget 2006 can place emphasis on **Making Intellectual Property (IP) the currency of the future.** We must **encourage the development of intellectual property** in Malaysia. There should be more incentives for promotion of innovation and inventiveness. **Valuation of intellectual property as a class of asset in balance sheets need to be looked into.** To promote the spirit of enterprise and inventiveness, we must shift from financial and physical capital to intellectual capital. How to **appropriately value intellectual capital and knowledge** have to be addressed.

3.2. It is proposed that a **supporting culture and enabling environment** for developing and stimulating the development of intellectual property and inventiveness be also part of the earlier proposed National Excellence Strategy. Impediments to innovation, inventiveness and intellectual property development should be identified and progressively eliminated.

4. **Rethinking Education – Expanding Human Capital**

4.1. An integral component of the proposed National Excellence Strategy should be **educational reforms**. There is a great need to **rethink Malaysian education**. Until and unless we are willing to bite the bullet and adopt radical new measures, we shall lose our competitive edge in education and ultimately our comparative advantage as a regional hub. In this regard, it is proposed that the Government appoint a **Royal Commission on Education to undertake a thorough review of our education systems, our educational strengths and weaknesses, opportunities and threats and come up with bold, strategic long-term measures to drastically improve Malaysian education at all levels**. The proposed Royal Commission on Education should also look at Malaysia's long-term human capital needs.

4.2. To make it more attractive to bring back more Malaysians residing overseas to return, it is proposed that Budget 2006 provides **double-deduction for school fees of such returning Malaysian having their children relocated to International schools in Malaysia**, as such fees can be very expensive and prohibitive, impeding the return of Malaysian experts from abroad whose children, because of their earlier overseas education cannot fit into our National school system and have to enroll in private international schools locally. This will be a strong incentive to attract more Malaysians to return. Likewise, it is also proposed that the Government **liberalise the entry of Malaysians into international schools**. Furthermore, it is proposed that Budget 2006 **allocate funds for converting some of our schools into centers of educational excellence**.

5. **Appoint Business Ambassadors to Enhance Malaysia's International Image**

5.1. It is proposed that to further promote Malaysia internationally and help change negative perceptions of the country, the Government consider the **appointment of Honorary Business Ambassadors or Special Track Representatives** as has been done in such countries as Britain, Thailand and Indonesia. Such honorary appointments could complement and supplement the role of Malaysia's official Diplomatic Representatives. Although these will be Honorary positions which will not carry any remuneration, appointees should be reimbursed for approved travel and entertainment expenses. Budget 2006 should therefore make such provisions.

6. **Promote Corporate Philanthropy**

6.1. Malaysians and Malaysian corporates have been a generous and giving lot. To further develop and promote this culture of caring, sharing and giving, Budget 2006 should further encourage **corporate philanthropy** by eliminating restrictions in the Income Tax Act which restricts donations. For example, the Income Tax Act specifies that donations are only deductible against aggregate income **but restricted to only 5% of the aggregate income** for the **year in which the donation is made**. This 5% restriction should be removed.

6.2. In Canada, for example, if a donation to a charity cannot be utilized due to insufficient taxable income, the excess can be carried forward for five years. In our case presently if the donation exceeds the aggregate income in the year it is given, it cannot be carried forward. The Income Tax Act is not sufficiently friendly to further promote corporate philanthropy. It is proposed that **Budget 2006 make a thorough review of restrictive provisions in the Income Tax Act** and **make corporate philanthropy a way of life for Malaysian corporations**. In fact, **Budget 2006**

should actively promote the 1% club by encouraging Malaysian corporates to donate 1% of nett profit annually to charities.

7. **Accelerate Tax Reforms**

7.1. To maintain Malaysia's competitive edge, it is proposed that tax reforms should be accelerated and brought forward to the 2006 Budget. Both Indonesia and Singapore have brought down their respective tax rates. In this regard, it is proposed that **Budget 2006 bring down corporate and personal income tax rate** by 2%. More vigorous tax collection and lesser avoidance of tax with a lower tax rate could mean that lower taxes need not result in lower tax collection.

7.2. To increase the Government's revenue to offset reduction in corporate and individual income tax, it is proposed that a **Special one-time windfall profit tax** of RM10 billion be imposed on PETRONAS, in view of the fact that high oil-prices will have generated windfall profit for PETRONAS.

8. **Healthcare Costs and National Health Financing Scheme**

8.1. Healthcare is the Malaysian Government's 3rd largest budget item; with an annual spending of just over RM21 billion. If the current trend is to continue with population growth and continuing free healthcare programs, this figure will grow 10-fold in 5 years. The cost of healthcare will then be a serious problem not for the Health Ministry but will be a huge problem for the Ministry of Finance.

8.2. Healthcare in Europe is a socialist arrangement with Governments paying for everything. This has led to long waiting periods, disgruntled voting public, no incentives for development in medicine/healthcare, etc. healthcare in America is now largely paid for by thirds parties, either Government (Medicare) or insurers.

In both cases, America and Europe, costs have gone out of control due to lack of market incentives and patients do not pay for their healthcare costs.

- 8.3. Before the same develops in Malaysia, we should make market mechanisms work, create competition and get private sector involvement while will hold down over utilization for free healthcare facilities.

There is no end to the demand for free healthcare and when it is free, the taxpayers end up eventually carrying the costs.

- 8.4. Done right and a redirection of the healthcare industry by the Government working with private sector in healthcare, it could earn Malaysia hard currency and make Malaysia a model for others to follow in Asia. In fact, Malaysia can be the Center for medicinal and healthcare evolution. **It is proposed that a National Health Financing Scheme be incorporated into Budget 2006.**

9. **Restart Privatization**

- 9.1. With the robust economic performance as seen in last year's GDP growth figures, the Government can **let the private sector take the lead in the primary engine of growth.** Government should therefore progressively reduce its involvement in business. The selldown of Government's stakes in various GLC's is therefore a step in the right direction. It is proposed that **Budget 2006 restart the privatization exercise** once again with a comprehensive strategy towards accelerated privatization. It is proposed that **Budget 2006 contain a list of privatization projects to be privatized over the next 1 to 3 years.** A clear listing of privatization priorities and specific projects will further strengthen transparency and accountability. Budget 2006 can send out **clear signals that the private sector will be the**

primary engine of growth during the Ninth Malaysia Plan period and in the Industrial Master Plan 3.

- 9.2. Reviving privatization can take on the form of **Public-Private Partnerships (PPP)** which has been effectively implemented in Britain and several other countries. This Public-Private partnership can be the way forward to enhance private sector participation. A **Privatization Review Board should also be established** to evaluate privatization proposals and monitor privatization projects. There is a need to make the new concept of Public-Private sector partnership viable and transparent.
- 9.3. The Construction Sector has been in the past a key driver of growth. The contraction in this sector last year has been a dampener on the business community due to a lack of trickle down effects caused by the construction slowdown. It is hoped that Budget 2006 will re-ignite growth in the construction sector to ensure more balanced growth. The current major growth components of electronic exports, palm oil and petroleum exports do not have a significant trickle down effect to sustain private consumption. In this regard, perhaps public consumption needs to be increased, especially for infrastructure development, notwithstanding the Government's focus on fiscal consolidation.

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