

THE 2004 BUDGET SPEECH

BY

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**INTRODUCING THE SUPPLY BILL (2004)
IN THE DEWAN RAKYAT**

12 SEPTEMBER 2003

“BUILDING ON SUCCESS, INVESTING FOR THE FUTURE”

Mr. Speaker Sir,

I beg to move the Bill intituled “An Act to apply a sum from the Consolidated Fund for the service of the year 2004 and to appropriate that sum for the service of that year” be read a second time.

INTRODUCTION

In the name of Allah, the most gracious and most merciful.

2. Praise be to Allah, for enabling the Government to once again table the 2004 National Budget in this Honourable House. The Mid-Term Review of the Eighth Malaysia Plan (8thMP), which is currently being undertaken will be tabled in this House on 30 October 2003.

3. In formulating the 2004 Budget, we have therefore, taken into account the performance of the first half of the 8thMP period with the view to ensuring the full implementation of development policies and strategies.

HALF A CENTURY OF RAPID PROGRESS

Mr. Speaker Sir,

4. The nation has just celebrated its 46th year of independence. We are grateful to the Almighty as Malaysians from all walks of life were able to celebrate the occasion in an environment of peace, prosperity and jubilation. We value our independence. We are free from colonisation. We are also free from domination by super powers. We are also able to regain our honour and dignity. We are able to manage our country. Our country has achieved significant progress as well as gained recognition and respect of the world.

5. When we gained independence, our economy was completely dependent on rubber and tin. However, our efforts to transform the economy since the 70s have turned Malaysia into a modern economy, with the industrial and services sectors contributing almost 90% to the Gross Domestic Product (GDP). The nation has embarked on the development of heavy industries and is now producing our very own national cars, which have penetrated nearly 80% of the domestic market. Today, we are the 17th largest trading nation in the world and a major exporter of electronic products. Exports of manufactured goods exceed 85% of the nation's exports.

6. To meet our industrialisation needs, we have also put in place a network of modern and efficient infrastructure. The nation is now connected by the North-South and East-West Highways. We have also built modern urban transportation in Kuala Lumpur and its surroundings with the construction of the Light Rail Transit (LRT), monorail and electric rail commuter. We have also constructed ports and world-class international airports. Malaysian ports presently have the capacity to handle 11 million TEU containers and about 450 million tonnes of cargo. Port Klang presently ranks 11th while the Port of Tanjung Pelepas 22nd in the World Container Port League. The Kuala Lumpur International Airport (KLIA), which has the capacity to handle 25 million passengers and 5 million tonnes of cargo, is the most modern airport in the region.

7. We have also made headways in the area of ICT. The Multimedia Super Corridor (MSC) has been developed with state-of-the-art multimedia infrastructure. Indeed, MSC marks yet another significant step towards propelling the nation into an ICT-based economy. To date, MSC has attracted more than 900 local and international ICT companies, far exceeding the target of 500 for 2003. Clearly, earlier sceptics have now been proven wrong.

8. In the past, the construction of such large infrastructure was carried out by foreigners. Now Malaysians have the expertise and technological capability to undertake these projects ourselves. The nation has nearly 44,000 engineers in civil, mechanical and electrical engineering as well as 3,000 architects and 2,000 quantity surveyors. With our experience in the construction of the Second Link, the Kuala Lumpur Telecommunications Tower and Petronas Twin Towers, Malaysians have successfully built the Putrajaya Administrative Centre, a well-planned and beautiful city, a model for other countries.

9. We have been successful in the construction of the Sepang F1 track, which is acclaimed as one of the best in the Grand Prix circuits. Our young engineers participated in the venture to further enhance high-performance cars used by Sauber Petronas to compete in the FI race. Such experience has contributed towards further developing the engineering capability of Petronas to produce petroleum products for the automobile industry.

10. Many Malaysian companies have ventured abroad. The largest is Petronas, which is now one of the major international petroleum companies, operating in 34 countries across the world. Petronas is involved in exploration, production, refinery and marketing of oil and gas and is listed in the Fortune Global 500.

11. We have also become a centre of excellence in education. Today, we have 18 public institutions of higher learning, including an International Islamic University, as well as hundreds of private colleges to meet the educational needs of Malaysians. A total of 70 colleges has also been established to produce technical manpower. We have also been recognised as a centre of excellence in education by foreign students. Currently, there are more than 36,000 foreign students from 150 countries studying in our local institutions.

Mr. Speaker Sir,

12. These achievements require a shift in the mindset of Malaysians towards the adoption of positive values and attitudes, especially perseverance and determination, ability to compete, to be confident and innovative as well as resilient. We began 21 years ago with the adoption of the Look East Policy to emulate the work ethics and culture of the Japanese and Koreans that emphasises dedication, discipline and loyalty as well as diligence towards attaining national development. We also instilled the principle of clean, efficient and

trustworthiness as well as leadership by example. The public service has been built on the principle of efficiency, discipline and quality.

13. The Government also adopted the Malaysia Incorporated Policy, recognizing the paramount importance of closer cooperation between the public and the private sectors as well as the employees to work together to achieve economic growth. The Privatisation Policy was implemented to meet the increasing demand for public infrastructure facilities apart from reducing the financial burden of the Government.

14. We are a country with a vision. We are almost mid-way towards our Vision 2020 to become a fully developed nation in our own mould. We have succeeded in diversifying our economy. We have also achieved a paradigm shift in the mindset of Malaysians so that we can become a more responsible, modern and progressive society, with astute thinking skills and proud of our achievements and have confidence in our abilities, in line with the information age.

Mr. Speaker Sir,

15. In the span of almost half a century, our ability to manage the economy has often been put to test. Malaysia experienced its first recession since independence in 1985, following sharp declines in commodity prices. We experienced deficits in the balance of payments and the Government financial account. We have not forgotten the Black

Monday incident on 19 October 1987 when major stock markets in the world crashed and adversely affected our stock market.

16. These experiences have made us wiser and more confident in planning and managing our economy. The high level of economic growth averaging more than 9% achieved during the period 1988-1996 bears testimony to our success.

17. The regional financial crisis was yet another test of our resilience and capability. We have thwarted the attempts of international currency speculators to impoverish the nation by devaluing the ringgit. The Government implemented unorthodox measures and did not yield to pressures to seek IMF financial assistance and subjecting the nation to IMF policy prescriptions. Our measures were severely criticised then and were said to be doomed to failure. The ringgit peg and capital controls were strongly objected to, whilst the establishment of Danamodal, Danaharta and CDRC were construed as bailouts of Government cronies. On the contrary, these agencies have succeeded in strengthening our banking system. With this success, we have gained recognition from the world and international agencies. They are now urging other countries to learn from our experience.

18. Danamodal had injected RM7.6 billion into 10 banking institutions to enhance their capacity to provide loans, while more than 70% of the loans have been repaid.

19. Danaharta has to date succeeded in reschedulling NPLs worth RM50 billion. The NPL is currently at 6.7%. Meanwhile, CDRC had successfully resolved 48 corporate debt restructuring cases amounting to RM52.6 billion. Indeed with all these, we have strengthened the banking institutions as well as restructured and turned around companies. As such, we have also avoided fire sales of our national assets to foreigners.

20. Our success in overcoming the financial crisis and in turning around the economy has disappointed all our critics. Only politicians and the mass media with vested interests refuse to acknowledge our success.

21. Our ability to manage the economy has resulted in the nation achieving a growth rate of 6.7% during the First Outline Perspective Plan, OPP1 1971-1990 period and 7.1% in the Second Outline Perspective Plan, OPP2 1991-2000 period. Consequently, Malaysians from all walks of life have benefitted from the economic growth, with per capita income increasing from RM1,132 in 1970 to RM13,683 in 2002. Our purchasing power parity has also improved significantly from US\$1,247 to US\$8,862. At the same time, the incidence of poverty has declined substantially to 5.1% in 2002 from 52.4 % of total households in 1970.

22. However, we sympathise with those in some states, who remain entrapped in poverty and sufferings in the midst of our prosperity.

This is because the leaders whom they elected are incompetent and incapable of bringing development to the states. Even worse, they claimed poverty and sufferings are fated and should be accepted. They believe that it is also fated, if Islamic states are poor, backward and undeveloped.

Mr. Speaker Sir,

23. The success, prosperity and excellence that we have achieved, is all due to Malaysia.

24. However, let us not be lulled into complacency. We must be prepared to face challenges and brace ourselves for future tribulations.

25. With our capability to successfully develop and manage our economy, Malaysia is now regarded as a model for developing countries. Many officials and leaders from developing countries have come to learn from our development experience. Malaysian officials have often been invited by other countries to provide expertise and training in various aspects of administration and development.

26. Our willingness to express our strong views on international issues, including against injustices has inspired those who are unable to do so. As such, Malaysia has become the spokesman for the third world and given the honour to host and lead the Non-aligned Movement.

27. Malaysia has also been recognised as an advanced and progressive Islamic nation and become a model to many Islamic countries. They are impressed by our success in building a truly developed and prosperous Islamic nation. We have succeeded in undertaking the *jihad* in many aspects of development, particularly economic, social, religious and political and proven the capability of the Islamic community in this age. As such, we have been chosen to host and lead the 10th Conference of the Organisation of Islamic Countries (OIC) in October this year.

28. To be able to voice our views effectively at international fora, we must be proficient in the English language. In the past, Malaysian officials have often been tasked to chair committees and lead in the drafting of communiqués at international meetings, as we were proficient in English. To enable the nation to become a global player in the international arena, we must master the English language. In this regard, we have embarked on the teaching of science and mathematics in English. These are subjects of importance in this era of information technology. As our society progresses, our language will also be enriched. No one will be interested to learn the language of poor and backward people.

CONTINUED ECONOMIC RECOVERY

Mr. Speaker Sir,

29. The Government had announced the Package of New Strategies Towards Stimulating The Nation's Economic Growth in May this year. The Package focussed on four main strategies, namely promoting private investment, strengthening the nation's competitiveness, developing new sources of growth and increasing the effectiveness of the delivery system. Ninety measures were formulated under this Package. Indeed, the impact of the Package of New Strategies has indeed been positive.

30. The performance of the Malaysian economy since the implementation of the Package of New Strategies is very encouraging, with a growth of 4.6% for the first quarter of 2003. During the second quarter, GDP growth remained strong at 4.4%, higher than expected, despite the negative impact of the war in Iraq and Severe Acute Respiratory Syndrome (SARS). As such, the economic performance for the first half of 2003 has achieved the growth target of 4.5% for the whole year. Clearly, the approach taken by the Government and the support of all Malaysians have contributed to the stronger growth.

31. All sectors of the economy registered strong growth, with the manufacturing sector recording the highest growth of 6.5%, followed by mining 4.5% and services 4.2%.

32. In terms of expenditure, private consumption continued to increase by 3.9% during the first half of the year, while private sector investment responded positively to the incentives provided under the Package of New Strategies. Private sector investment is expected to record a growth of 2%, after experiencing a sharp deceleration since the financial crisis.

33. Notwithstanding the weak external demand, the contribution of exports to GDP growth remained positive, reflecting the competitiveness of Malaysian products in the international market. This is also due to our concerted efforts to seek new markets, mainly in Africa, South America and West Asia, apart from expanding regional markets, especially among ASEAN countries and East Asia. This has also reduced our dependence on traditional markets like the United States and Europe.

34. The feel good factor has clearly returned to the share market. The Kuala Lumpur Composite Index surged to its highest level of 756.48 points on 5 September 2003 compared with 632.43 points on 2 January 2003. Total daily transactions reached 586 million units or RM1.17 billion compared with 107 million units valued at RM0.5 billion during the same period. The market capitalisation is now at RM581.98 billion compared with RM473.16 billion on 2 January 2003. The buoyant stock market has also attracted active domestic and foreign investor participation with total transactions increasing more than three-fold.

Mr. Speaker Sir,

35. The tourism sector in particular has recovered from the negative impact of SARS. The preventive measures put in place by the Government have succeeded in containing the spread of the disease. In addition, the US-led invasion on Iraq has not adversely affected us. The measures under the Package of New Strategies to mitigate the impact of SARS have indeed been successful.

36. The better performance of the economy has further strengthened the nation's economic fundamentals. International reserves continue to increase to RM146.9 billion or US\$38.7 billion, which is sufficient to finance 6 months of retained imports and is 4.3 times our external short-term debts. The banking system remains strong with several banking institutions recording good profits. The high liquidity in the system has enabled the Government to continue with its accommodative monetary policy, particularly with respect to the low interest rate regime. In addition, the Government continues to mobilise non-inflationary domestic resources without crowding-out the private sector. As such, the Government does not have to depend on external sources of funding to finance its development programmes. Price increases have also been contained with the increase in the Consumer Price Index at 1.2 %.

37. Despite signs of improvements in the global economy, it is unlikely that the world economy will recover to its level before the financial crisis in the immediate term. The path to sustained recovery remains uncertain, given the geo-political risks still prevailing. The super powers continue to force and exert pressure to effect regime changes in countries which oppose them. Since the September 11 incident, the global war against terror has been used as an excuse to threaten nations accused of sympathising and protecting terrorists.

38. This is how super powers legitimise their aggression and oppression on countries like Afghanistan and Iraq and justify their pre-emptive measures on other countries. Clearly, they practise the law of the jungle. For the super powers, might is right. Their strength legitimises everything.

39. We have repeatedly stressed that the only solution to the geo-political conflicts is to identify the root cause of terrorism. Force and massive retaliation will further aggravate the situation and undermine efforts to revive the global economy.

40. The development in the global economic environment calls for greater concerted efforts towards enhancing regional cooperation. Stronger regional cooperation will enable us to speak with one voice. During the Asian financial crisis, countries in the region have demonstrated their willingness to collaborate to provide support to affected economies. More than half of the funds mobilised to assist the

affected economies was from this region. In addition, the ASEAN+3 countries have also mobilised billions of dollars under the Chiangmai and the Miyazawa Initiatives. We have also pointed out the weaknesses and shortcomings of the international financial system, which had contributed to the Asian financial crisis.

Mr. Speaker Sir,

41. It has been more than a decade, since we proposed the establishment of the East Asian Economic Group (EAEG). The proposal was rejected then and even deemed to be dangerous. However, after 13 years, the proposal is considered viable and has become a reality that will lay the foundation for greater economic, trade and financial cooperation. We had remained steadfast in our stand despite the opposition. If EAEG had been accepted earlier, we could have avoided the Asian financial crisis or at least minimised its impact. Since many years have passed since we first mooted this idea, we need to redouble our efforts towards realising the EAEG.

42. The East Asia region has trillions of dollars in reserves, which are largely invested in the West. It is now timely that we seek the best alternative to maximise the use of these resources for the prosperity of the region. In this regard, we welcome the establishment of the Asian Bond Market Initiative (ABMI), which was initiated by the Finance Ministers of East Asia. Under this Initiative, long-term financial instruments will be made available to finance private sector investments.

This will help prevent mismatch in financing as experienced during the financial crisis, where short-term borrowings were used to finance long-term investments. This will also avoid foreign exchange risks. To ensure success of this Initiative, Malaysia will provide appropriate tax incentives. In addition, we will also take the opportunity to widen the use of Islamic financial instruments in ABMI, based on our experience and expertise in developing the Islamic financial system.

43. Regional cooperation must be based on mutual benefits and respect as well as equal rights and democracy. No one should be selfish and pressure their neighbours. No one should dominate other nations nor force others into agreements. Agreements must not be biased. Unilateralism cannot be accepted. Instead, progress must be based on consensus, consultations and mutual understanding. Shortfalls and inequities among neighbours must be redressed as best possible. The prosper-thy-neighbour principle must be the underlying thrust and practice in relations among nations.

44. However, the action of a neighbouring nation had often tested our patience with baseless accusations. We will not do the same. We will continue to adhere to the principle of good neighbourliness and fair play. When two parties are unable to resolve disputes through negotiations, then there is a need for a third party to arbitrate. We are willing to seek arbitration. Confrontation and war are not our way to resolve disputes. Threatening and demeaning others are also not our way. We do not give baseless excuses neither do we manipulate facts. It

is our hope that our proposal for arbitration will be accepted as soon as possible.

ENHANCING EFFORTS TOWARDS ACHIEVING EXCELLENCE

Mr. Speaker Sir,

45. The external environment remains uncertain. Many people are still living in fear, especially to travel by air, which have restricted business transactions. Therefore, we cannot depend on the external sector. Neither can we continuously rely on Government expenditure to generate economic growth, as its financial resources are not unlimited.

46. As such, the private sector must resume its role as the engine of economic growth. We must also seek new markets for our exports. We must become a truly trading nation whereby we produce our own goods and export directly to foreign importers.

47. When we planned to become an industrialised nation, we were driven by the need to provide as many employment opportunities as possible for our people. The agriculture sector was unable to generate sufficient jobs. Only the manufacturing sector could provide significant job opportunities.

48. The Government did not intend to earn tax revenue from industries. Hence, we were prepared to give tax exemptions for longer period as long as there are employment opportunities for our people.

49. Our industrialisation strategy has been very successful. Job opportunities are so abundant that it had led to an influx of foreign workers into the country. Malaysians who are willing to work will always find jobs.

50. In line with the growth in the manufacturing sector driven especially by foreign investment, the nation's trade has increased rapidly. Currently, our total trade is RM760 billion equivalent to US\$200 billion. We can justly be proud of our success in transforming our nation from an agricultural to an industrial economy.

51. Malaysians have benefitted immensely from industrialisation. At the same time, we have also acquired skills that enable us to establish our own industries. There are many electrical and electronic products as well as other manufactured goods which are produced by Malaysians. When we produce our own goods, the contribution to national wealth is higher.

52. We do not intend to reduce foreign investment but to maximise national wealth, we must increase investments by Malaysians. Furthermore, foreign direct investment has been declining and has largely flowed to low-wage economies.

53. Japan, South Korea and Taiwan have not depended on foreign investment for their industrialisation. Their local entrepreneurs with the support of the Government have developed their industries through acquisition or development of their own technology. We were unable to do so initially as we did not have adequate capital, technology, management skills and global market knowledge. However, after we have gained knowledge and experience in these areas, we are now able to venture and develop our own manufacturing industries. This is evident from the increased number of our own products, including automobiles, lorries, buses, light trains, electrical and electronics, various types of cranes, IT, refineries for oleo and petrochemical products as well as construction materials and many others.

54. Our investors are less confident in venturing abroad and prefer to focus only on the domestic market. Since our domestic market is small, our local producers cannot reap economies of scale that will enable them to reduce costs. We can only compete with the advanced economies, if we produce high quality products on a large-scale basis. As such, our producers must be bold in undertaking ventures to produce high quality products on a large-scale for the world market.

55. Apart from manufacturing, we must also increase our agricultural production. There are many agricultural products that can be processed to give higher value. In addition, the tourism and education sectors can also contribute towards national economic development.

56. In fact, we must take stock of our existing capacity as well as potentials in the industrial sector. There are many areas that can be further developed to contribute to our economic growth as well as to enable us to become a larger trading nation.

57. We trade with more than 200 countries, big and small. However, there are many more countries that we have not explored fully as trading partners. These include the Gulf, North Africa and other African countries.

58. Malaysia has made a name in infrastructure development. In the past, foreign contractors were awarded contracts to build roads, bridges and dams. But now Malaysians are able to compete to secure such contracts. In oil exploration and production, Petronas has operations in more than 30 countries. We need another consortium to undertake oil exploration, production and refining. In Malaysia, the Government can allow another consortium to undertake the development of marginal fields so as to gain the confidence of other countries.

59. In promoting Malaysian companies abroad, the quality and ability of Malaysian companies are of paramount importance. We must not allow companies which do not have the capability to seek contracts and business opportunities abroad so as to sell them to other companies. This will only result in the erosion of confidence in Malaysian companies as well as our nation.

Mr. Speaker Sir,

60. We have constructed ports and airports to provide excellent services to our exporters and importers. In addition, our traders must fully utilise our expressways and railways.

61. Currently, in the production of goods, not all components are produced locally. Many are sourced from overseas. Of importance is the brand name of the product. There are many well-known brands in the world that have components made in Malaysia. However, these products are not regarded as Malaysian products.

62. We must also have Malaysian brands even though they may use components from other countries. It is also necessary to create as well as design Malaysian brands that can be marketed abroad. Western brands are not always necessary. Today, Hitachi, Honda, Toyota, Hyundai, Samsung and many others are well known in the world. It is, therefore, not impossible for Malaysian brands in our language to be accepted globally.

63. We must further enhance our trade by exporting goods and services produced by Malaysians. However, we do not have to reduce the export of goods by foreign investors in the country. The involvement of Malaysians in the production of all goods and services in industries must be increased. They must also manage by themselves all aspects of

trade, both for domestic and foreign markets. The Government will provide support in terms of putting in place appropriate policies and funds as well as improving the delivery system.

Strengthening Small and Medium Industries

Mr. Speaker Sir,

64. The Government continues to give focus on the development of small and medium industries (SMIs) as part of its efforts to promote private investment. SMIs will be further developed not only to support large domestic industries, but also to produce components for industries abroad. The Government has established a Micro-Credit Scheme under the Package of New Strategies to provide easier accessibility to loans for small entrepreneurs, such as farmers, cattle rearers, night market traders, hawkers and others. The response to the Scheme has been overwhelming.

65. To date, Bank Pertanian Malaysia (BPM) and Bank Simpanan Nasional (BSN) have received almost 88,000 applications worth RM1.4 billion, of which nearly 42,000 applications valued at RM430 million have been approved. Loan repayments have also been encouraging, with almost 86% of scheduled repayment being received. The Government is encouraged with this response. However, there are a few who have abused and misused this facility. To those who have received these loans, they must ensure that they repay on schedule. We

must be reminded by the saying of the Prophet that it is indeed a cardinal sin for one to leave debts behind upon death, with no one to settle them.

Stimulating Private Consumption

66. One of the measures to stimulate economic activities is to encourage greater domestic consumer spending. Every ringgit that is spent will generate significant multiplier impact on the economy. Towards this end, the Government has introduced various measures to increase disposable income through tax cuts and provision of incentives, reduction in the employee's contribution to EPF as well as providing bonus for Government employees when our financial position permits. In addition, our national savings rate at 32% further strengthens our financial position. The ringgit peg has ensured stability in our purchasing power.

67. The ability to balance savings with investment reflects sound financial management. This is the best financial practice.

Enhancing Competitiveness to Face Challenges of Globalisation

Mr. Speaker Sir,

68. Globalisation as presently interpreted means the free flow of trade across boundaries. The Government cannot intervene in the market system. The market is supposedly able to regulate itself.

69. In fact, the market is only interested in reaping huge profits. As such, the developed countries have formed larger companies and banks to overcome competition by traders of developing countries. It is not possible for the small companies and banks in developing countries to withstand the onslaught of giant companies when they have access to domestic markets as a result of globalisation. This is not a level playing field. Once again, might is right is the belief of the day.

70. We support globalisation but not as advocated by the West. We must have our own interpretation of globalisation, which we will pursue relentlessly until its acceptance in WTO.

71. We must persevere and stand up to face these challenges. We must enhance our sovereign competitive edge to enable us to compete with global players in the international market. This can only be achieved through increasing productivity, reducing the cost of doing business, acquiring technology and be more innovative. Efforts to improve the effectiveness of the public sector delivery system have contributed towards the efficient implementation of Government development policies and strategies. In addition, measures must be taken to effect a shift in the mindset of Malaysians to enable us to become more competitive.

BUDGET STRATEGY 2004

Mr. Speaker Sir,

72. The Government has taken prompt and bold measures to implement policy shifts from growth that is solely based on exports to domestic-led growth. The shift in policy has succeeded in preventing the country from experiencing recession. As such, the thrust of the 2004 Budget will continue with policies and strategies to stimulate and accelerate domestic economic activities, with greater participation of Malaysians in economic growth. However, the Government cannot continue to be the engine of growth. As such, the Government introduced the Package of New Strategies to enable the private sector to resume its role as the engine of growth.

73. Taking these into consideration, the 2004 Budget will focus on the following strategies:

First : Accelerating domestic private sector and stimulating the services sector to spearhead economic growth.

Second : Implementing fiscal consolidation towards a balanced budget in the near term.

- Third : Implementing monetary policy that can support and harness private consumption and investment.
- Fourth : Enhancing the nation's competitiveness to enable Malaysia to become a truly trading nation.
- Fifth : Strengthening the social agenda and caring society to enhance the quality of life and well-being of Malaysians.

**First Strategy:
Domestic Private Sector as the Engine of Growth**

Mr. Speaker Sir,

74. During the ten years prior to the financial crisis, the private sector had been successful in driving economic growth with their investment expanding by more 21% per annum. A major contributor to this growth was from foreign direct investment (FDI), particularly in the manufacturing sector. Indeed, almost 90% of our exports are goods produced by foreign companies in Malaysia.

75. Foreign companies in Malaysia finance their investments largely from our domestic sources. As such, the inflow of foreign capital into the country is actually smaller than perceived. Furthermore, these companies do not produce Malaysian brands, have low backward and

forward linkages and utilise foreign technology developed abroad. The main contribution of FDI has only been in terms of job creation. But today, since Malaysians are fully employed, it only benefits foreign workers.

76. We must change all these and be bold enough to transform the economy from being FDI-driven to domestic-led investment. We must act immediately to make a quantum leap to become the nation's investor, producer and exporter. Our domestic private sector must develop and produce Malaysian brands of world-class quality, able to penetrate international markets. We must export goods, which we produce ourselves. We must promote private sector initiatives to produce local products with high value creation, beginning from our own research findings to utilising local components as well as domestic logistics. This will ensure wider spin-off effects and higher wealth creation for all Malaysians.

77. We must redouble our efforts to become a global trader by promoting Malaysian products directly to a wider international market, in particular non-traditional markets. As one of the strategic measures towards this goal, MATRADE will be corporatised. MATRADE will bring in expertise from the private sector, including expatriates in the promotion of exports. For this purpose, the Government will provide a launching grant of RM100 million. MATRADE will immediately undertake roadshows, including export promotion on wheels to the Middle East and Africa. In addition, the Government will also encourage private sector

initiatives to establish trading houses for our exports. The Government will identify and assist capable individuals and private companies to undertake these initiatives.

Mr. Speaker Sir,

78. SMIs can contribute to economic growth. They also have the potential to produce high quality and value-added products, which can be exported. A strategic direction for the development of SMIs must be formulated not only to enable them to be the backbone of large industries but also able to export their own products abroad. Towards this end, a High-Level SMI Council has been established to formulate comprehensive policies and strategies to ensure a more integrated development of SMIs in all sectors.

79. To encourage SMIs to increase their investments, the Government proposes to increase the threshold of chargeable income that is subject to a corporate tax of 20% as announced in the 2003 Budget, from RM100,000 to RM500,000. With this increase, SMIs will have an additional RM322 million for reinvestment.

80. To further strengthen the role of private sector, the Government proposes the following measures:

- i. providing existing locally owned companies, which reinvest in the production of machinery and equipment,

including heavy machinery and machine tools, with the following incentives:

- a. Pioneer Status with tax exemption of 70% on the increased income from reinvestment for a period of 5 years; and
 - b. Investment Tax Allowance of 60% on the additional investment for a period of 5 years;
- ii. enhancing incentives for companies producing goods using oil palm biomass as follows:
- a. increasing the rate of income tax exemption under Pioneer Status from 70% for 5 years to 100% for 10 years; and
 - b. increasing the rate of Investment Tax Allowance from 60% to 100% for 5 years;
- iii. providing existing companies using oil palm biomass with the following incentives:
- a. Pioneer Status with tax exemption of 100% for 10 years on the increased income from reinvestment; and

- b. Investment Tax Allowance of 100% for 5 years on additional investment;
- iv. improving tax incentives for companies in Sabah, Sarawak and the eastern corridor of Peninsular Malaysia as follows:
 - a. increasing the rate of income tax exemption under the Pioneer Status from 85% to 100%; and
 - b. increasing the rate of Investment Tax Allowance from 80% to 100%. This allowance can be fully deducted and not limited to 85% of the statutory income; and
- v. exempting tax on income remitted from abroad by individuals, as presently enjoyed by companies. It is hoped that this measure would encourage individuals to remit their income from their investments or savings abroad for domestic investment.

81. To further promote the development of private venture capital companies, the venture capital fund for Malaysian Venture Capital Management (MAVCAP) will be increased by RM300 million, thereby increasing the total amount of funds under MAVCAP to RM800 million. In addition, the Government has established the Malaysian Debt Venture (MDV) with a fund of RM650 million and the Malaysian Technology

Development Corporation (MTDC) with a fund of RM1 billion to finance investment in areas, such as logistics and modernisation of agriculture.

82. The Government has also granted income tax deduction to venture capital companies equivalent to their investments in venture companies, provided the shares in venture companies are disposed through initial public offerings (IPOs). To further enhance this incentive, tax deduction will be allowed for shares disposed through other approved exit mechanisms, such as put option and management buyout.

83. Apart from this, the method of computing the 70% investment in venture companies will be relaxed to take into account the amount of funds invested instead of the total funds of the venture capital company.

84. In addition, the Government also proposes that venture capital management companies be given tax exemption on income received from profit sharing agreements with venture capital companies.

Stimulating the Services Sector

Mr. Speaker Sir,

85. The services sector is a major contributor to economic growth and foreign exchange earnings. The potential sources of growth in this sector has yet to be fully exploited to produce high value-added services,

especially those services related to manufacturing, education, tourism, transportation and logistics as well as ICT.

86. In the past, the flow of FDI had focussed on the manufacturing sector. We must now undertake efforts to attract FDI to the services sector, especially those with high value-added potentials through incentives. In the Package of New Strategies, we have further relaxed equity conditions, apart from providing many tax incentives to attract services-oriented companies, such as Operational Headquarters (OHQs), Regional Distribution Centres (RDCs) and back-room outsourcing operations by multinational companies (MNCs) to operate in this country.

87. The Multimedia Development Corporation (MDC), as a one-stop shop for investment in the MSC has succeeded in attracting many local and foreign companies to invest in ICT. For companies granted with MSC status, the Government has given 10 commitments under the Bill of Guarantees, including the provision of infrastructure, freedom of ownership and sourcing of funds as well as recruitment of knowledge workers, regardless of citizenship.

88. MDC has successfully attracted and encouraged companies to provide shared services, especially for IT support services for their global operations, including information and data processing centres. Recently, Ericsson established its headquarters here, while HSBC and Standard Chartered Bank, among the largest banking and financial

institutions in the world, set up their electronic data processing offices to provide back-end processing and customer contact services to their groups worldwide. Shell, a major petroleum company in the world and also DHL have created similar services in MSC. These activities have succeeded in providing employment opportunities for highly qualified Malaysian professionals.

89. To further stimulate the services sector, it is timely that a one-stop agency be set up to hand-hold and guide investors in obtaining approvals from various authorities, with the view to expediting their project implementation. In view of the success of MDC in developing MSC, the Government will expand its role to become a one-stop agency ala MIDA for selected services sectors. We are confident that MDC will be able to undertake its new role effectively.

90. The financial sub-sector, with a contribution of 14.5% to the GDP, is one of the major components of the services sector. In line with the objective to make Malaysia a regional financial centre, the Government will allow Labuan offshore companies to establish their marketing offices in Johor Bahru, which is rapidly developing with the increasing number of MNCs that have relocated their operations there. This measure will also complement the Government's efforts in making the Port of Tanjung Pelepas and the Senai Airport as an international logistics hub.

Mr. Speaker Sir,

91. To further enhance the incentives for OHQs, the Government proposes that income derived by OHQs from the provision of services to its related companies in Malaysia, will be given income tax exemption not exceeding 20% of its total income from its global operations. This is similar to the incentive currently enjoyed by RDCs.

Promoting Malaysian Industries In The Global Market

Mr. Speaker Sir,

92. While the nation's exports are high, we must focus on the production of goods and services by our domestic entrepreneurs for both the domestic and export markets. If we ourselves are not keen to buy our own locally produced goods and services, it will be difficult for our producers and businessmen to market their products abroad. Efforts to develop domestic products with export potentials must be made an important national agenda. To further promote local products, a Fund for the Development and Promotion of Malaysian Brands has been established with an initial allocation of RM100 million. The Government will further increase the Fund by an additional RM100 million.

93. To enhance demand for local goods and services, the Government and the private sector must together increase the consumption of local products to ensure these products have a strong

domestic market base. In other countries, the domestic market has provided the base for local industries to venture into the global market. We must emulate these countries to spearhead the growth of our domestic industries.

94. In order to promote domestic heavy industries, the Government will continue to support such industries. Since February 2003, sales of passenger cars have been declining, as consumers are postponing their purchases in anticipation of lower prices on imported cars when the automotive sector is liberalised under AFTA. The Government has indicated earlier that the prices of cars will not be lowered even after the reduction of import duties on cars from ASEAN countries. To mitigate the loss in revenue, the Government proposes to levy excise duties on imported cars when import duties are reduced from 1 January 2004. Therefore, consumers are encouraged to purchase cars now for themselves and their families.

95. The Government will also review its procurement system. Presently, the evaluation of Government tenders focusses on two aspects, namely technical and financial. To provide a market base for our entrepreneurs, the use of local content and value-added will be given due consideration in the Government's tender evaluation.

96. The agenda to promote domestic industries is of utmost importance. As such, the Government will require Tenaga Nasional, Telekom, Proton and Petronas as well as the stable of companies under

Khazanah and PNB and other Government companies to spearhead the development of domestic products and technologies in their respective sectors. These companies must take advantage of their domestic market and their global network as well as funds to promote domestic industries, capable of competing in the international market. In line with this policy, the vendor and umbrella system will be reviewed.

97. The Government hopes that our private sector companies will take this challenge and work towards developing domestic industries that can compete globally. In this regard, the Government will ensure a conducive environment, including development of R&D, provision of funds, increased promotional and marketing efforts, provision of logistics services and improved public sector delivery system, in line with the objective of achieving sovereign competitiveness.

98. The Government is committed to the New Economic Policy (NEP) launched in 1971, including the creation of a Bumiputera Commercial and Industrial Community or BCIC, to provide opportunities for Bumiputera to succeed as entrepreneurs. The policy has produced many successful Bumiputera entrepreneurs and corporate leaders. However, the financial crisis had adversely affected them. This is one aspect of the NEP that has not been fully achieved. As such, the Government through its own companies will intensify efforts towards achieving this objective, especially through the vendor and umbrella system, which will be reviewed.

99. In this regard, we strongly oppose the agenda to open up markets for Government procurement, which is being discussed at the WTO forum in Cancun. Once again, the West is using the WTO to push forward their agenda for economic colonisation. If we do not oppose this agenda, our efforts to implement the National Development Policy, which safeguards the interests of domestic entrepreneurs, including Bumiputera as well as the objective of promoting domestic industries, will not be achieved.

100. To enable us to produce quality products that can compete in the global market, we must have appropriate technologies as well as develop our own patents and brands. Apart from developing our own technologies, patents, products and brands, we can also acquire them from abroad. In the automobile industry, we have succeeded in acquiring Lotus, while in the aerospace industry we have acquired Eagle and Lance Air (USA), which produce twin and four-seater aeroplanes using composite materials. InventQJaya was also established to promote a society of inventors that can develop new frontier technologies. Recently, we have also acquired the MM chip from a Japanese R&D company, FEC Incorporated. The MM chip is the smallest in the world measuring 0.25 square millimetres. In addition, Malaysian-owned companies have also been successful internationally, such as fashion design and shoes. Malaysians also own the London Circus, the largest in the world, as well as Laura Ashley and Crabtree & Evelyn and others.

101. To enable Malaysians to venture into latest technologies, measures are being taken to develop the aerospace industry. Three years ago, the Government successfully launched Tiungsat and will soon launch the Razaksat. This success will enable us to launch additional satellites, including low-orbit equatorial satellite and the possibility of establishing Malaysia as a rocket launching centre. We also hope to send the first Malaysian astronaut into space. *Malaysia Boleh.*

**Second Strategy:
Fiscal Consolidation Towards A Balanced Budget**

Mr. Speaker Sir,

102. When the 8thMP was formulated, the Government had targetted achieving a balanced budget by 2005. However, the sharp decline in private sector activities following the regional financial crisis, uncertainties in the external environment, including the September 11 incident, geo-political tensions in the Middle East, war in Iraq and the outbreak of SARS, had necessitated the Government to implement several stimulus packages to revitalise domestic economic activities to prevent the economy from going into recession. As such, the objective of a balanced budget cannot be achieved in 2005. However, the Government remains committed to achieve a balanced budget in the near term by implementing fiscal consolidation measures. Notwithstanding this, the public sector account remains strong, with the public sector deficit below 1.5% of GDP in 2003, significantly lower than

the 3% set for the euro region. The increase in public sector deficit is due to large investments by Petronas in 2003.

103. Government expenditure will focus, especially on the provision of more efficient infrastructure facilities to reduce the cost of doing business and support economic growth. Allocations will continue to be provided for the implementation of programmes to improve the socio-economic well-being of Malaysians. In this regard, emphasis will be given to the provision of goods and social services for the benefit of all Malaysians, especially the lower income group.

104. To ensure effective distribution of Government funds, allocations to Government agencies will be based on their financial positions. Agencies with high uncommitted reserves will have to utilise their reserves to finance their programmes.

Streamlining Budget Preparation and Implementation

105. To streamline Budget preparation, the Government has implemented the two-year budget preparation and examination since Budget 2002. This process has enabled the preparation of a rolling plan, which incorporates current and following year budgetary requirements. It also shortens the time and reduces man-hours required for budget examination and thus, enables agencies to focus on implementation.

106. The adoption of the two-year budget has contributed towards expediting the implementation of development projects where agencies have lead time to undertake project planning. With the speedier implementation of development projects, there is no shortfall in expenditure as in previous years.

Budget Allocation 2004

107. In line with the fiscal consolidation policy, the Government proposes an amount of RM112.5 billion be appropriated for, in the 2004 Budget. This represents a reduction of 1.6% compared with an expenditure of RM114.3 billion in 2003. Based on an estimated revenue of RM95.6 billion, the overall Federal Government deficit is expected to be reduced to 3.3% of GDP compared with 5.4% in 2003.

108. A major portion of the proposed allocation, that is RM80.5 billion or 71.6% is for Operating Expenditure while RM30 billion is for Development Expenditure. A sum of RM2 billion is allocated for contingency reserve.

109. Under the Operating Expenditure, a sum of RM20.9 billion is for Emoluments, RM17.2 billion for Services and Supplies and RM39.4 billion for Fixed Payments and Grants, RM0.8 billion for purchase of office equipment and facilities and RM2.2 billion for other expenditures.

110. Of the proposed Development Expenditure, a sum of RM13.8 billion or 43.1% is allocated for the economic, infrastructure and industrial sectors as well as rural electricity and water supply programmes. A sum of RM11.2 billion or 34.9% is for the social sector, that is education and training, health, welfare, community development, youth and sports projects. In addition, a sum of RM2.7 billion or 8.4% is for development projects in the security sector and RM4.3 billion or 13.6% for general services.

Education

Mr. Speaker Sir,

111. The Government will continue to give priority to the education sector with an allocation of RM20.2 billion or a quarter of operating expenditure in 2004. Among the educational institutions, which are expected to commence operations are 44 primary, 43 secondary and 3 technical schools as well as 59 hostels. As announced in the Package of New Strategies, 4 education promotion offices will be operational this year in Dubai, Ho Chi Minh, Beijing and Jakarta.

112. Under the Development Expenditure, a sum of RM3.7 billion is provided, including RM1.8 billion for primary and secondary schools, hostels and teachers' quarters. A sum of RM637 million is allocated for school computerisation programmes while RM490 million is for financing infrastructure requirements of public institutions of higher learning.

113. Last year, the Government decided to implement the teaching of Science and Mathematics in English using ICT. This programme involves an expenditure of RM5 billion for the 8thMP period. The Government will also roll-out smart school programmes in stages and implement the Schoolnet project to enable students to gain wider internet access. This programme has been implemented in almost 200 schools in remote areas of Sabah and Sarawak.

114. In line with the Government's objective to provide compulsory basic education for all children, a Trust Fund for Poor Students was launched on 23 July 2003. An amount of RM200 million is allocated to the Fund to assist poor students to continue with their education.

115. To enhance the quality and standard of franchised education programmes, the National Accreditation Board, will invite lecturers or experts from public or private institutions of higher learning to assist in undertaking validation, moderation or accreditation of the programmes. This is to ensure that the quality of courses offered are at par with those from foreign universities. For this purpose, the Government proposes that fees or honorarium received by these lecturers or experts who assist in validation, moderation or accreditation, be exempted from income tax.

116. To reduce the financial burden of graduates in loan repayment to Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN), the Government will reduce the rate of interest on loans from 4% to 3%.

The repayment schedule will commence on the third year after the graduate is employed. In addition, the repayment schedule will also be restructured to enable borrowers to repay their loans at 5% of their monthly income for the first 5 years and 10% for the balance of the repayment period. This facility will also be extended to borrowers under the Skills Development Fund. For students who wish to pursue Islamic studies in institutions of higher learning abroad, they will also be able to borrow from PTPTN on the condition these institutions are recognised by the Government and they must enrol in academic subjects. They must also possess qualifications recognised by the Government. The amount of loans should not exceed the cost of similar courses in local institutions. Apart from this, the Government will also consider extending this loan facility to students pursuing twinning programmes abroad for the final year of their studies in institutions of higher learning recognised by the Government and in courses encouraged by the Government.

Skills Training

117. The development of technology and knowledge-based industries requires more trained manpower. For this purpose, the Government will continue to give emphasis on increasing the quality and quantity of skilled manpower by further expanding existing facilities and building new skills training centres. An allocation of RM319 million is provided under the Ministry of Human Resources (MHR) for this purpose. With an additional 10 new training institutions, MHR will have the capacity to train 17,000 trainees in various skills. A sum of RM245.5

million is also allocated to provide additional facilities and build 25 National Youth Skills Institutes that can train 11,000 trainees. A sum of RM77.5 million is provided to complete 14 existing institutes and build 3 new institutes and RM107.3 million to meet the management costs of Mara Skills Institutes.

118. The Government launched the Skills Development Fund under the Package of New Strategies with an amount of RM500 million to increase the supply of skilled manpower. The Fund provides loans to trainees from skills training institutes, such as Industrial Training Institutes, MARA Skills Institutes, National Youth Skills Institutes and other selected private institutes. To manage this Fund, a special agency ala PTPTN will be established. The loan condition under this Fund is similar to that of PTPTN, with an interest rate of 3%. The monthly repayment schedule will be made in stages.

119. To further expand technical training facilities, an engineering training centre for Computer Numerically Controlled (CNC) machines has been established at the Technology Park Malaysia. This Centre provides training on the use and design of CNC machines for various industries, especially components and spare parts. This training will contribute towards the upgrading of skills in CAD/CAM/CAE.

120. Community colleges will also provide vocational training. Pusat Giat MARA will be upgraded as Community Colleges with emphasis on vocational training with the view to providing more skills

training opportunities. Government-owned companies, such as TNB and Telekom will also provide technical and vocational training at their training centres. Participants in these training programmes can obtain loans from the Skills Development Fund. In addition, to encourage employers to hire unemployed graduates registered with the Economic Planning Unit (EPU), the Government proposes that expenses incurred by employers in employing these graduates be given double tax deduction for a period of 2 years. For unemployed graduates requiring retraining, they can obtain financing from the Retraining Fund under the Package of New Strategies.

Research and Development (R&D)

Mr. Speaker Sir,

121. The Second National Science and Technology Policy was formulated to achieve R&D expenditure of at least 1.5% of GDP by 2010. Towards this end, the Government has provided substantial allocation to develop expertise and expand R&D facilities. To continue with these efforts, a sum of RM183.6 million is allocated for the Intensification of Research in Priority Areas (IRPA) programme, specifically for public research institutions in collaboration with the private sector. In addition, three new research institutions will be established in the BioValley, Cyberjaya, specifically in biotechnology. The Government will encourage large companies to locate in the BioValley to undertake contract research as part of the efforts to further develop the services industry.

122. Our R&D efforts have contributed significantly to increases in yield of commodities, especially oil palm and rubber. The yield of commodities per hectare has doubled and their maturity period shortened. Apart from increasing output, research institutions have also undertaken downstream research, such as biodiesel from oil palm and rubber thermoplastic.

123. In the light of declining contribution of commodities to the economy, it is timely that R&D institutions refocus their efforts towards greater demand and market-driven R&D that emphasise value-added or value creation, with the view of commercialising their research findings. For example, the global market for healthcare and life sciences products and services is expected to reach 4 trillion euros while pharmaceuticals 30 billion euros by 2006. In Malaysia, biotechnology is still an infant industry. Although currently there are about 60 biotechnology companies, they are still small and have yet to reach world-class status.

124. The Government will restructure SIRIM to become the focal point to match R&D with market demand. SIRIM will identify the requirements for new products and technology for both the domestic and global markets. It will also study the whole R&D value chain to create value, including niche activities to be developed, such as logistics, packaging and marketing.

125. The Government through SIRIM will also identify R&D requirements based on market demand and match them with R&D capacity in universities and research institutions. As this represents a long-term investment in developing our local technology to produce high quality Malaysian brands, the Government will provide adequate funds for this purpose. The nation has the expertise and capacity to undertake R&D to meet market demand. For example, we have more than one thousand doctorates, apart from adequate facilities and funding for R&D.

126. To promote the commercialisation of research findings, the Government proposes that income received by researchers from such activity be given tax exemption of 50% for 5 years. At the same time, the Government will not impose charges on patents registered by local researchers.

Tourism

Mr. Speaker Sir

127. The tourism sector, especially hotel and tour operators, has been adversely affected by the Iraq war and the outbreak of SARS. To assist them, the Government had implemented prompt measures under the Package of New Strategies, such as the deferment of income tax payment by tour agencies, discounts on electricity bills to hotel operators and the provision of the Special Relief Guarantee Facility.

128. To encourage operators in the tourism industry, including hotel operators, to undertake expansion, modernisation and renovation, the Government proposes that a second round of Pioneer Status or Investment Tax Allowance be given.

129. Hotel operators should work together to set up tourism information centres at all entry points, including airports as well as major railway stations to enable tourists to make hotel reservations upon arrival. They are also encouraged to provide on-line reservation facilities. For this purpose, the Government will develop portals and provide access to these portals at airports, railway and bus stations throughout the country.

130. The Government will continue to undertake more effective tourism promotion efforts together with Malaysia Airlines and AirAsia as well as tour agencies. For this purpose, the Malaysian Tourism Promotion Board (MTPB) will be restructured to undertake a more systematic and effective marketing and communications programmes. In addition, promotional efforts will focus on regional markets, especially China, Taiwan, Hong Kong, India and ASEAN countries. Promotional efforts will also be intensified in the West Asian market and new markets such as Pakistan, Indo-China and New Zealand. In this respect, a sum of RM215 million will be allocated for promotional activities.

131. The Government has also established tourism funds amounting to RM1.1 billion, that is RM400 million under the Special

Tourism Fund and RM700 million under the Tourism Infrastructure Fund. Both these funds are managed by Bank Pembangunan dan Infrastruktur Malaysia (BPIMB). Priority will be given to the financing of new tourism products. To increase its effectiveness, the Government through the Ministry of Finance will monitor its implementation with respect to approvals and disbursements of the funds.

132. Malaysia Truly Asia. This theme does not only reflect the multi-ethnic and multi-cultural society but also the variety of Malaysian cuisine, which has become a tourist attraction. We have Bintang Walk, Bangsar Baru and Mon't Kiara, where tourists spend their time along sidewalk cafes. Such places have also become the *happening place*. In this regard, we must also ensure our food traders have stalls that are attractive, clean and hygienic. Towards this end, the Government has provided micro-credit facilities to enable them to replace their stalls with new pushcarts made of stainless steel as well as colourful canopies and proper tables and chairs ala Bintang Walk. In this regard, traders will only be allowed to use stalls or pushcarts approved by Local Authorities.

Health

Mr. Speaker Sir,

133. The Government will continue to provide quality medical services to all Malaysians. Hence, the Government will allocate a sum of RM9 billion, an increase of 20.5% from 2003. Of this, RM6.4 billion is for

operating expenses and RM2.6 billion for development expenditure. This allocation is for the provision of essential medical treatment services, such as dialysis, intensive care and programmes to reduce morbidity and mortality among children. To increase the diagnosis and monitoring of infectious diseases, such as SARS, tuberculosis, leprosy and dengue, the Government will provide a sum of RM3 million.

134. The cost of medical treatment is rising. The Government subsidises health services to ensure Malaysians are charged at minimum rates. However, this has become an increasing financial burden for the Government. To assist the Government to reduce this burden, the health insurance industry is encouraged to widen its coverage by providing lower premiums, which are affordable to a majority of Malaysians. In addition, companies must also bear the medical costs of their employees.

135. The Government has built many hospitals with modern and sophisticated equipment, including the application of ICT for the paperless Total Health Information System (THIS). This includes Hospital Selayang, Serdang and Pandan in Johor. The Government is not able to provide high remunerations for medical specialists. As such, the Government has agreed to set up private commercial wings in Government hospitals, to enable serving doctors to enjoy better remunerations and thereby, continue to serve with the Government. Through these measures, the Government also hopes to attract specialists who have left the service to return and serve in Government

hospitals. In addition, this will enable those seeking better medical treatment to obtain such treatment at reasonable charges in Government hospitals. It will also enable our Government hospitals to be promoted abroad, in line with the objective to encourage health tourism.

136. Healthcare is vital to ensure the well-being of the people. To improve healthcare, the Government proposes that import duty of 10% on health supplements be abolished. The Government shall also ensure prices of selected medicines be provided at a discount to pensioners. In this matter, Pharma Niaga will provide a special counter for this purpose.

137. At the same time, to encourage healthy lifestyle among Malaysians, the Government proposes that import and excise duties on cigarettes and other tobacco products be increased by 20%, from RM216 to RM259 per kilogramme and from RM48 to RM58 per kilogramme, respectively. This increase is in line with World Health Organisation's proposal to discourage smoking. To curb smuggling of cigarettes, the Government is implementing the use of special stickers or banderol and security ink.

138. The Government also proposes that import and excise duties on liquor be increased by 10%. In addition, the Government will also implement the use of banderol and security ink on liquor.

139. The Government would like to take this opportunity to congratulate and record our appreciation to all medical staff who had

sacrificed and took risks during the screening of visitors and treating SARS patients. The special allowance provided is only a small token of the Government's appreciation. It cannot compare with their untiring efforts and unwavering dedication in carrying out their duties. We all should emulate them.

140. Even though the SARS outbreak has ended, we must continue to be vigilant and be prepared in case of recurrence. The Government will continue with its efforts to put in place measures to prevent such diseases. In this regard, the Government will expedite the establishment of the Centre for Disease Control (CDC), as announced in the Package of New Strategies. A sum of RM20 million is provided for this purpose.

Rural Development

Mr. Speaker Sir,

141. Efforts to enhance the standard of living of the rural community will be continued. A sum of RM2.27 billion is provided for rural development, of which RM450 million is for the construction of village roads, while a sum of RM260 million for the completion of 74 continuation and new projects. An amount of RM267.1 million is provided for the completion of rural clinics.

142. A sum of RM225.4 million and RM272 million is allocated for the rural water and electricity programmes, respectively to benefit almost 140,000 households throughout the country. An allocation of RM7.9 million is provided for water projects as well as programmes to ensure clean environment in rural areas. The coverage of potable water supply has reached 99.9% for Peninsular Malaysia. In addition, RM242 million is allocated to provide water supply to rural schools.

143. To reduce the financial burden of low-income groups, the Government proposes that motorcycles of engine capacity not exceeding 150 c.c. be exempted from road tax. This will also reduce the financial burden of youths and students in institutions of higher learning. The Government also proposes that road tax on buses for workers, be reduced by 50%. Employers are expected to pass on this benefit to their employees.

Development of Sabah and Sarawak

Mr. Speaker Sir,

144. As in previous budgets, the development of Sabah and Sarawak will continue to be given emphasis. A sum of RM5.9 billion and RM5.5 billion is allocated to Sabah and Sarawak, respectively. These states will have wider road networks connecting major towns. Presently, several towns in Sabah can only be reached by air or river transport. However, with the completion of these projects, all towns will be

connected by road. In Sarawak, major road networks are being constructed to facilitate communications not only in Sarawak but also between Sabah and Sarawak. New bridges will also be built to replace old ones to ensure greater safety. Apart from this, the implementation of rural and village roads is being accelerated and being undertaken by local contractors of all classes.

145. Given that Sabah and Sarawak are large states, several air and sea transportation projects are being implemented. Apart from the newly completed airports of Tawau, Bintulu and Miri that can accommodate Airbus 330, the Kuching airport will also be upgraded. The Bintulu and Kuching ports are also being expanded. The Government will also build a new port in Semalanjau to cater for the aluminium smelting plant. The plant, an investment from the Middle East, will also utilise a large portion of electricity produced from the Bakun Hydroelectric project.

146. In the education and health sectors, Sabah and Sarawak will also be given significant allocations to implement projects, such as Phase 2 of the Universiti Malaysia Sabah and the construction of the UNIMAS permanent campus in Samarahan. The Government has taken over the Sabah Medical Centre from the private sector, which will be upgraded to become a major hospital in Kota Kinabalu. In addition, with the view to increasing the number of doctors and allied health services personnel, the Kuching hospital will be upgraded to become a teaching hospital for UNIMAS.

147. Sabah and Sarawak have not enjoyed full coverage of rural water supply. As an interim measure, the Government has implemented rural water supply programmes, especially in schools, using rain harvesting and tube well system. To date, almost 700 schools in Sabah and Sarawak have been identified to benefit from these facilities, with a cost of RM242 million.

Agriculture

148. The Government will continue to give emphasis to further modernise the agriculture sector, in particular programmes to increase food production. Towards this end, large-scale mixed farming will be promoted, including animal husbandry, intensive farming as well as the use of modern technology and management. To further promote greater value-added chain in the agriculture sector, activities such as processing, logistics, packaging, developing brand names and securing new markets will be supported and encouraged. Towards this end, all activities in the value chain, including delivery system, will be strengthened, particularly the provision of cold storage chain facilities for perishable agricultural products.

149. Companies which provide these facilities and services can also utilise venture capital funds available from MTDC. In addition, new companies which provide cold chain facilities and services for perishable agricultural produce are given Pioneer Status or Investment Tax

Allowance. To promote reinvestment in this field, the Government proposes that existing locally owned companies be granted the following incentives:

- i. Pioneer Status with tax exemption of 70% on the increased income from reinvestment for 5 years; and
- ii. Investment Tax Allowance of 60% on the additional investment for 5 years.

150. The Government has already established the Fund for Food totalling RM1.3 billion under BPM to finance the production and processing of food products. To date, this Fund has been fully utilised. In view of the good response, the Government has provided an additional RM1 billion under the Package of New Strategies, bringing the total Fund to RM2.3 billion.

151. To further stimulate rural economic activities and assist small entrepreneurs in villages, the Government will establish the Village Micro-Credit Scheme amounting to RM1 billion under BPM. To ensure efficient and effective implementation of this programme, this credit will be provided on group basis through the Village Development Committee for villages, which are involved in the one product one village programme. The implementation of this Scheme will be supervised by the District Development Committee and the Implementation and Coordination Unit, Prime Minister's Department. The objective of the

Scheme is to provide opportunities to farmers to gainfully utilise their free time and increase their income.

152. An allocation of RM3.3 billion is provided for operating and development expenditure for the agriculture sector. Of this, RM885 million is for the provision of basic agricultural facilities. In addition, aquaculture farming will be expanded, with an allocation of RM70.6 million, while RM165 million is for the construction of an Integrated Deep Sea Fishing Port and a Fisheries Training Centre in Tanjung Manis, Sarawak.

Increasing Orang Asli Participation in Mainstream Development

153. The Government continues to undertake programmes with the view to enhancing greater participation of orang asli in national economic development. As a measure to increase their income, the Village Micro-Credit Scheme will also be extended to enable them to undertake economic activities, including agriculture and small businesses. In addition, they will also be provided with hire-purchase facilities for boats and outboard engines under the Package of New Strategies. To enable orang asli to purchase comfortable and affordable homes, they will also be given priority under the SPNB low and medium-cost housing scheme as well as the provision of soft loans to acquire these homes.

154. An allocation of RM156.5 million is provided for the implementation of programmes for orang asli. These include Rancangan Pengumpulan Semula, Penyusunan Semula Kampung, and economic development activities, such as entrepreneur and skills training. In addition, for orang asli children, assistance such as school uniforms, textbooks and bus fares have been provided.

Increasing Security

Mr. Speaker Sir,

155. Recently, there has been a spate of hijacking, piracy and gangsterism, including “tonto” activities as well as robberies and thefts. To overcome these problems, the Government will increase and strengthen security and enforcement. The police force will step up their security surveillance throughout the country. The Government will review several departments of the Royal Malaysian Police with the view to increasing their capacity and effectiveness through the provision of equipment and special training. Apart from this, the Government has also established the Malaysian Maritime Enforcement Force (APMM) in its efforts to increase surveillance in our waters, such as the Straits of Malacca.

156. It is the responsibility of the Government to provide a safe environment for the public and businesses. To ensure the safety of enforcement officers in various agencies, they will be supplied with

appropriate equipment while on duty. In appreciation of their services, the benefits and remunerations provided to security personnel and their families will also be extended to enforcement officers if they are injured or die in the line of duty.

157. A sum of RM4.4 billion for operating expenditure is provided for internal security while RM6.5 billion is allocated to the Ministry of Defence for 2004. For development expenditure, allocations of RM750.5 million and RM2.1 billion have been provided, respectively to equip and modernise the defence and security systems of the nation.

**Third Strategy:
Monetary Policy to Support Private Consumption and Investment**

Mr. Speaker Sir,

158. Accommodative monetary policy will continue to be implemented to promote domestic activities, in particular consumption and investment. The Government will continue to maintain this policy, especially given the low interest rate regime in the world. In addition, there exists high liquidity in the system that can be mobilised to finance domestic economic activities. As such, measures to manage this liquidity will be put in place so as to ensure it will be utilised more efficiently to stimulate domestic investment and consumption.

Easier Access to Financing for SMIs

159. Small and medium industries (SMIs) need to be further promoted to generate greater domestic investment activities. To further strengthen their role, it is imperative for financial institutions to provide greater access to finance and credit facilities to the SMIs. In addition to financial facilities provided by the Government under the Package of New Strategies, banking institutions must be pro-active in providing loans, especially to small and medium businesses.

160. Given the good response from small businesses to the Micro-Credit Scheme of BPM and BSN, the Government will provide an additional RM1 billion to the Scheme.

161. The Government is also concerned over small and medium businesses, which are facing difficulties in servicing their loans with financial institutions. Under the Package of New Strategies, Bank Negara Malaysia has established the Scheme to Restructure and Reschedule Loans for all types of loans and credit facilities by borrowers in the tourism sector. To date, loans amounting to RM3 billion have benefitted from the Scheme.

162. In addition to this Scheme, the Government will also assist SMIs to address their non-performing loans with financial institutions, using a mechanism ala CDRC. Towards this end, BNM will establish the

SMI Debt Restructuring Committee. It is the Government's hope that this mechanism will help to resolve the debts of SMIs.

Issuance of Merdeka Bonds

163. The Government is aware of the impact of the low interest rates regime on groups whose income depend on savings in financial institutions, that is pensioners aged 55 years and above who do not have permanent jobs. To ensure that they receive higher returns, BNM will issue serial bonds for this group with a maturity period of 2 years and a return of 5% per year, higher than the interest rates on savings. The Government proposes that the returns from these bonds be exempted from income tax. In appreciation of the services and sacrifices of uniformed personnel, this bond will also be extended to those who have gone on mandatory retirement.

Expanding the Capital Market

164. The capital market continues to play an important role in financing economic development, especially in terms of raising funds from the market. Since 2001, more than RM99 billion have been sourced from the capital market through the issuance of bonds and equities. In addition, 13 asset-backed securities (ABS) valued at more than RM7 billion have been approved. This encouraging performance has been the result of the implementation of initiatives under the Capital Market Master

Plan as well as the 10 new measures introduced by the Government in March this year to strengthen the capital market.

165. Currently, there is no specific income tax provision for ABS. As a measure to promote financing through the issuance of ABS, the Government proposes that ABS be given equal tax treatment as other conventional securities. At the same time, the Government proposes that expenses incurred in the issuance of ABS be granted tax deduction for 5 years.

166. One of the 10 measures implemented to strengthen the capital market is to encourage large companies to be listed on the KLSE. Towards this end, FELDA which is not only the largest plantation company in this region but also in the world, will also be listed on the KLSE. FELDA shares are expected to become one of the blue chips on the KLSE and FELDA has the potential to be promoted as an international brand. With the listing, FELDA will be able to tap funds from the capital market and therefore, will no longer depend on the Government for its financial requirements. At the same time, the Government will be able to reap returns from this listing, while the FELDA Group of companies, settlers, cooperatives as well as state governments, which have provided land to be developed as FELDA plantations, will also benefit. FELDA settlers will have the opportunity to hold equity in the listed company as members of the cooperative and as settlers.

167. The proposal is in line with the objective of the NEP to enable Bumiputera to own at least 30% of the equity in the corporate sector. It is hoped that Bumiputera will not divest their shares.

168. After 46 years of independence, we must take cognisance of our weaknesses and work towards rectifying them. As a measure to further expand investment opportunities through trust funds, especially for Bumiputera, a Second Unit Trust Fund or Dana Harapan (HARAPAN) will be established. This Fund will be managed by professional and experienced managers to mobilise Bumiputera savings and capital.

169. The Government has significant high-value assets, which have not been fully utilised. To optimise returns, the Government will undertake to unlock these assets so as to enhance its financial position. It will also provide investment opportunities for investors to utilize these assets to generate returns and contribute to economic growth.

Expanding the Islamic Financial System

170. Since its introduction in Malaysia in 1983, Islamic banking has brought a new facet to the nation's financial system. Malaysia is one of the nations that has a comprehensive Islamic financial system. We began with the establishment of Bank Islam and now Malaysia has two Islamic banks and 33 conventional banks offering Islamic banking services. The growth of Islamic banking also serves as a catalyst to the rapid expansion of the Islamic financial system, comprising banking,

insurance and the capital market. Total assets of the Islamic banking system increased almost four-fold to RM68 billion in 2002 from RM17.9 billion in 1997.

171. Islamic insurance or *takaful* industry has emerged as another Islamic financial product, which has expanded rapidly since its introduction in 1986, with total assets increasing from RM200 million to RM4 billion this year. Islamic private debt securities (PDS) have also received encouraging response with issuance exceeding RM34 billion since 2001. The net asset value of Islamic funds has also increased more than two-fold to RM4.3 billion.

172. At the international level, Malaysia was the first country to issue global Islamic bonds, *Sukuk Al-Ijarah*. The US\$600 million bond was twice over-subscribed. Another significant achievement was the establishment of the Islamic Financial Services Board in Kuala Lumpur to ensure stability and strengthen the global Islamic financial industry. With these achievements, Malaysia has now become a model in the expansion of the Islamic financial system among Islamic countries.

173. As a measure to increase financing through the issuance of Islamic securities, the Government proposes that a more comprehensive tax treatment be provided similar to conventional securities. In addition, deductions will be given on expenses incurred in the issuance of Islamic securities based on the principle of *Istisna'* for 5 years, where property under construction can also be used to back such bonds.

174. To encourage companies and financial institutions which practice *Syariah* principles to invest in Labuan, the Government proposes that Labuan offshore companies be given tax rebate equivalent to the total *zakat* paid, not exceeding RM20,000 or 3% of net profit.

**Fourth Strategy:
Enhancing the Nation's Competitiveness**

Mr. Speaker Sir,

175. Measures undertaken by the Government as well as initiatives by the private sector to enhance efficiency and productivity have contributed towards further strengthening the nation's competitiveness. Based on the 2003 World Competitiveness Yearbook, among countries with 20 million and above population, Malaysia is ranked fourth after the United States, Australia and Canada. This placing is an improvement compared with the sixth position in 2002 and tenth in 2001. This improvement reflects the nation's ability to compete in the international market, attributable to the concerted efforts made by the Government and the private sector since two decades ago.

176. The use of IT has become an integral part of business, particularly high-speed internet access to enable the nation to become more competitive. In addition more Malaysians, in particular the younger generation are surfing the internet to acquire knowledge and obtain

current information. To ensure wider access to the internet at low cost, Telekom Malaysia will reduce the internet access charges. In addition, this reduction will promote e-commerce through wider and cheaper access to broadband internet. Telekom Malaysia will provide 50% discount for industrial and corporate package, beginning with 30% for phase 1 and a further 20% for phase 2. For other users, a 30% reduction will be given for consumer broadband internet charges.

177. To ensure wider and more efficient internet services, JARING will be merged with TMNet. As Cyberjaya will become the hub for selected services, accessibility and quality of broadband services will be improved while the cost will be reduced to a more competitive level compared with other countries.

178. In our efforts to further improve the nation's competitiveness, the private sector must continue to reduce the costs of doing business to enable them to compete with lower cost manufacturers in other countries. For this purpose, the Government has provided various incentives, particularly in the Package of New Strategies. As a continuous effort to achieve this, the Government proposes the following:

- i. allowing full deduction on entertainment expenses incurred in sales promotions and deduction of 50% on other entertainment expenses;

- ii. abolishing the limit on the exemption period for import duty and sales tax on spares and consumables for the manufacturing and services sectors, which is due to expire on 31 December 2003;
- iii. extending deduction on incorporation expenses to companies with authorised capital up to RM2.5 million, currently enjoyed by those with authorised capital up to RM250,000 only;
- iv. reducing or abolishing import duties on selected goods such as computer batteries, wooden and plastic goods, from the current rates of between 5% and 30% to between 0% and 20%; and
- v. reducing or abolishing export duties on several agricultural produce and commodities, such as fish, fruits and certain minerals, from the present rates of between 2.5% and 10% to between 0% and 5%.

179. The mass media industry has become an important sector to create a knowledge society. It is proposed that local publishing and printing companies be given exemption of anti-dumping duty on imported newsprint on the quantity that cannot be supplied by local producer. This exemption will render the cost in the publishing and printing industry to be more competitive.

**Fifth Strategy:
Strengthening Social Agenda And Caring Society**

Mr. Speaker Sir,

180. Recently, almost every day, we read and hear about incidences of social ills in the mass media, including the militant groups, cold-blooded murders, kidnappings, secret societies, merciless acts of loan sharks, incest, drugs and HIV/AIDS. Of greater concern are moral decadence and incidence of crimes among youths, particularly school children. We also hear of murders committed by under-aged children, runaways among teenagers, extortion, truancy and gangsterism among students.

181. Previously, we see such incidents only happening abroad, through TV and newspapers. But they are now happening before our own eyes, in our country. These are social ills resulting from the unrestrained influence of television and the internet. Such influence has adversely affected some segments of the Malaysian society as well as destroyed our cultural values. Modern technology has been misused, particularly by illegal VCD producers, who are only interested in reaping profits without any regard for the negative influence on society.

182. The Government is determined to step up efforts to curb social ills, particularly among the youths. Towards this end, the National

Social Policy has been launched, with the objective to promote social development based on noble values and self-enrichment to achieve unity and stability, national resilience as well as the well-being of Malaysian society. To enable a more integrated, strategic and comprehensive approach to address social problems, the Government will establish 50 community service centres in areas with high incidence of crimes and social problems. The Government urges NGOs and members of local communities to work together to ensure the successful implementation of the Policy.

Harmonious Families Basis for High Moral Values

183. We must intensify our efforts to combat social ills, particularly among the youths, the potential leaders of the future. Efforts in building a Malaysian society with high moral values are not the sole responsibility of the Government. The family, particularly parents and the society must share this responsibility in moulding youths with good behaviour, practise healthy lifestyle, are disciplined and knowledgeable as well as the assimilation of religious values. These values provide a strong foundation to curb social problems and build a society that is truly successful in all aspects of life.

Recognising the Role of Women

Mr. Speaker Sir,

184. The role of women in moulding happy families and their contribution in national economic and social development has always been recognised. The success of women in balancing this dual role cannot be denied and is indeed admirable. The responsibility of women in nurturing families based on My Home My Heaven, begins from the birth of a child till adulthood. Mothers play the key role in moulding and inculcating good values in children so as to become knowledgeable and devoted to family and willing to serve for the betterment of race, religion and country. Youths imbued with high morals and strong resilience will stand the challenges of our time and prevent them from being dragged into the miseries of social ills. It is their generation that will continue with our aspirations and strive to uphold the nation's dignity. Parents must give greater attention to their role in nurturing a responsible generation.

185. Unfortunately, there are some who undermine the status and dignity of women. There are some husbands who divorce their wives through SMS. Marriage is a noble event involving all family members, especially parents of the bride and groom, *kadi* and witnesses as well as close friends. Although Islam allows husbands to divorce their wives by mere utterance of the words, divorce should not be taken lightly. It should be carefully thought through as children often become victims. Using SMS does not reflect respect for the sanctity of marriage and

family institutions, including children. In addition, SMS is not secure as anybody can use it to send divorce messages without the knowledge of the husband. The resultant social problems will not reflect the true character of Islam.

186. There are also some who restrict the contribution of women in development by only allowing them to become teachers and welfare officers and preventing them from becoming judges, Government administrators or joining the security forces. For the Barisan Nasional Government, women stand equal with men in the mainstream of development. Female workforce has increased to more than 45%. In the history of Islam, women had fought alongside Prophet Muhammad in war, while in business, Saidatina Khadijah was involved in cross-border trade. Remember, heaven lies beneath the mother's feet. Behind every successful man is a wife. The hand that rocks the cradle shakes the world.

187. In the light of fewer male students in institutions of higher learning, restricting the role of females will only result in reducing the human resources of Muslims by more than half. As such, Muslims in Malaysia will have to depend on others for everything. Do not be disappointed when this happens. Do not blame the women if men are unable to control their desires. Islam does not place the responsibility of restraining desires solely on women.

188. Programmes for the development of women and family institution will be further enhanced and a sum of RM105.4 million has been allocated. This includes training, guidance and counseling to instil greater confidence and encouragement to women, especially single mothers, the elderly and the disabled.

189. To enable single mothers in rural areas to increase their income from their businesses, a sum of RM100 million from the Village Micro-Credit Scheme will be set aside to provide loans to those with own businesses. Single mothers in the low-income group will also be given priority to purchase low and medium-cost houses from SPNB with a 20% price discount.

190. The Government has provided several tax incentives to employers to establish childcare centres at the workplace. However, the response from private employers has not been encouraging. In this regard, the Government may consider the establishment of such facility as a condition in the development order of Local Authorities.

191. The Government is aware of the rising costs of bringing up and educating children. To assist parents in reducing the burden of expenditure on children, the Government proposes an increase in tax relief from RM800 to RM1,000 per child.

Youths as Future Generation Achieving Excellence in Sports

Mr. Speaker Sir,

192. The youths, who represent the future generation, that will continue to strive to develop the nation, must be imbued with strong self-resilience. Towards this end, the Government will implement the National Service Programme involving some 100,000 youths. This programme will include basic military training, civics education, character building and social services, aimed at nurturing the spirit of cooperation, national unity and integration as well as healthy lifestyle. An allocation of RM300 million is provided for this programme.

193. The Government is proud of the success of our national athletes who have brought fame and glory to the nation at the international level. The most recent accomplishment is our national marathon swimmer who has become the first from South-East Asia to successfully swim across the English Channel. Physical resilience and mental strength as well as endurance have enabled him to swim against waves as high as 3 meters and to withstand the icy cold waters. Our badminton players have also succeeded to become the All England Champion as well as the first runner up in the World Badminton Championship. Let these spur us to greater heights in sports. This achievement is not merely another success of our national heroes, but shows that with discipline, dedication and strong determination,

Malaysians too can attain success in all fields. These achievements should inspire and strengthen our determination to achieve excellence in sports.

194. The Government values the contribution of all, including state governments, corporate sector and NGOs in rewarding our sports champions. I hope our athletes will not be distracted by these rewards, but continue to improve their performance. In appreciation of our athletes who have brought fame and glory to the nation and enabled Malaysians to walk tall, the Government will provide scholarships for those athletes who wish to further their studies locally or abroad to become coaches or managers in the sports of their choice.

195. Our young men are the nation's hope and our young women the nation's pillar. Healthy bodies make for active minds. A sum of RM657.9 million is provided to the Ministry of Youth and Sports for 2004. We are actively training our athletes for their participation in the 28th Olympic Games in Athens, Greece. In addition, Malaysia will once again host the Extreme Sports for the third year.

196. To provide greater recreational facilities to the public, especially the youths, the Government will make the provision of such facilities a prerequisite in new housing development projects. In addition, all local authorities must provide facilities, such as parks and playgrounds as well as recreational areas for activities, including jogging.

For this purpose, the Government will provide an initial sum of RM50 million.

Providing Support to the Disabled

Mr. Speaker Sir,

197. The Government is concerned with the well-being of the disabled and will ensure that they continue to benefit as well as participate in the mainstream of development. Several financial assistance have already been provided for them, including financial aid of between RM80 to RM350 a month. As of mid-2003, a total of 122,543 disabled persons has registered and received financial aid, amounting to RM88.5 million.

198. To encourage the disabled to continue working to support themselves and their families, a Disabled Worker Allowance of RM200 per month has been provided if their monthly income ceiling does not exceed RM500. The assistance is provided to meet the cost of transport to the workplace as well as other expenses. To enable more disabled workers to enjoy this financial aid, the Government proposes that their income ceiling be raised from RM500 to RM750 a month.

199. As a measure to ensure that the disabled also have access to job opportunities, the Government has allocated 1% of public service

posts for the disabled. In addition, a special unit will be established at the Ministry of Human Resources to assist the disabled in getting jobs.

200. The Government sympathises with the heavy responsibility of parents with disabled children and the high cost of sending them to special schools. To help these parents and their children, the Government proposes that a monthly allowance of RM25 per person be given to disabled students in primary and secondary schools to encourage them to receive education. For the disabled in institutions of higher learning, the Government proposes that the present monthly allowance of RM300 per person for those with impaired hearing, also be extended to them.

201. For civil service employees with disabled children, the Government will allow them to work on flexi-hours to facilitate them in caring for their children. The Government also proposes that the private sector provides similar facility.

202. In the 2003 Budget, the Government had announced a fund of RM100 million to finance treatment of those suffering from chronic diseases. The Government now proposes that a special fund of RM10 million be established for the disabled suffering from chronic diseases.

203. Job opportunities for the visually impaired, such as typists, stenographers and telephone operators are declining. As such, they need to be provided with skills in new areas, such as IT, physiotherapy

and others. In this regard, the Association for the Blind is encouraged to establish a network of *Franchise Shops* to provide opportunities for them to become entrepreneurs as well as create more job opportunities. They can also obtain financing from the Government's Micro-Credit Scheme and will be given suitable locations to establish a network of *Franchise Shops*. In addition, the Government will also bear the full expenses for the purchase of white canes and Braille machines for the visually impaired.

204. The Government will also ensure that the disabled can own comfortable and affordable homes. For this purpose, the disabled in the low-income group will be given priority to purchase low and medium-cost houses from SPNB, with a price discount of 20%.

205. To help reduce the cost of transport for the disabled, Syarikat Prasarana Negara Berhad will give a 50% discount on travel fares. Private transport companies are encouraged to extend the same facility. In addition, the Government proposes that road tax be exempted on locally manufactured cars, vans and motorcycles owned by the disabled.

206. To ensure the disabled also benefit from the use of ICT, a Pioneer ICT Resource Centre will be established in Sungai Buloh to train the visually and hearing impaired in ICT skills. The Government will also provide ICT enabler to facilitate them to use ICT as a communications tool, particularly at zebra crossings and during emergencies, especially on the highways. In addition, all Government buildings will be provided

with appropriate facilities to help the disabled in their dealings with Government departments, including facilities in lifts. The Government hopes the private sector will also provide such facilities for them.

Meeting the Need for Low and Medium-Cost Housing

Mr. Speaker Sir,

207. The Government is sensitive to the need for housing, particularly for the low and medium-income group. Based on the national population profile, especially those in the age group of 20 to 24 years, the demand for low and medium-cost houses is expected to increase by 500,000 units in the next 5 years. To ensure this group will have the opportunity to own houses, the Government will take over the construction of low and medium-cost houses, particularly through Syarikat Perumahan Negara Berhad (SPNB).

208. To reduce the burden of private housing developers, they will be given the choice of either implementing the construction of 30% of low-cost houses or allowing SPNB to undertake its construction. However, they are required to pay a contribution in return. EPF contributors who purchase low-cost houses built by SPNB will be provided with end financing from MBSB. This will ease their financial burden as well as reduce the administrative red tape in obtaining financing from commercial banks. As the provision of low-cost housing is a social responsibility of the Government, state governments are

requested to exempt land premiums for the construction of low-cost houses. All utility companies providing facilities, such as electricity, water and telephone will also be requested to charge only basic costs.

209. A pilot project based on a new concept will be implemented as a showcase on 1,000 acres of land owned by the Rubber Research Institute of Malaysia (RRIM) in the Klang Valley for the construction of 10,000 units of affordable homes. The project will also be provided with public transport facilities, religious centres, commercial facilities, shopping centres, retail shops, recreation facilities, such as parks and playgrounds and community halls as well as other facilities.

210. For 2004, the Government will provide a sum of RM558.8 million for several low-cost public housing projects. Of this, RM484 million is for the construction of 62,672 units of low-cost houses under Programme Perumahan Rakyat and will be rented out to squatters in the Federal Territory of Kuala Lumpur and major towns. The balance of RM74.5 million is allocated as loans to state governments to continue the construction of 28,541 low-cost houses.

211. For the armed forces, a sum of RM418.1 million is provided to continue the construction of 2,500 units of houses, while RM251 million is provided to complete 44 housing projects for the police force. A sum of RM38 million is provided for the construction of common use quarters in the KLIA area and Kuala Lumpur.

212. To solve the problem of abandoned housing projects, the Government will undertake measures to expedite the rehabilitation of such projects. Currently, there are 204 abandoned projects throughout the country involving nearly 66,000 units valued at RM5.6 billion. The rehabilitation of more than half of these projects involving 36,000 units valued at RM3.4 billion is being undertaken by SPNB. To overcome the delay resulting from problems between creditors, developers and banks, Danaharta will manage the non-performing loans of the relevant financial institutions and task SPNB to complete the projects. In addition, SPNB will also take over and manage housing projects under Tabung Pusingan Perumahan Kos Rendah (TPPKR), which is currently under TPPT Sdn Bhd.

213. The Real Estate Investment Trust and the Property Trust Fund will be established to enable small investors to invest in the real property sector. The funds will be managed by professional managers to generate more attractive returns. To encourage the development of these funds, the Government proposes:

- i. exempting the real property gains tax on gains from disposal of property by individual or company to these funds; and
- ii. exempting stamp duty on instruments of transfer of real property from individual or company to these funds.

Clean Environment Makes Healthy Citizens

Mr. Speaker Sir,

214. A clean environment is paramount in preventing infectious diseases, such as SARS which had recently affected the country. The Government is serious in preventing contagious diseases that can be fatal. As a measure to ensure cleanliness in our environment, an appropriate waste disposal system, particularly in towns is essential. For this purpose, the Government proposes to build a modern and safe waste incinerator plant. The plant, which is expected to cost RM1.5 billion, is better than most waste incinerator plants even in developed countries. In these countries, waste incinerator plants have been built in industrial or housing areas without any opposition from residents.

215. To ensure the environment remains clean, an allocation of RM1.9 billion is provided under several ministries and agencies. Of the amount, a sum of RM680 million is provided for flood mitigation programme, particularly in overcoming flash floods, which often occur in Kuala Lumpur. In addition, a sum of RM462 million is provided for the management of solid waste and RM422 million for sewerage projects.

Non-governmental Organisations (NGOs)

Mr. Speaker Sir,

216. The Government acknowledges the contribution of NGOs in carrying out welfare activities as well as appreciates their spirit of volunteerism, even risking their own safety in undertaking their missions. We have witnessed the courage and bravery of MERCY during their peace missions to provide assistance to war victims in Afghanistan and Iraq. In addition, several NGOs have supported and worked together with the Government in dealing with social problems, such as drug addiction, HIV/AIDS as well as caring for the less fortunate, such as the elderly and destitute, disabled and those suffering from chronic diseases.

217. NGOs must strengthen understanding and cooperation through smart partnership with the Government towards building a responsible and caring Malaysian society. Towards this end, they must set standards in evaluating their performance, especially with respect to effective leadership as well as their activities and financial management. This will enable them to become more ethical, efficient and accountable in discharging their duties as NGOs.

218. The Government will continue to provide support and contribution to NGOs to undertake their activities. A sum of RM96.4 million has been provided, including RM6 million for AIDS prevention,

RM20 million for women and family development, RM20.8 million for health programmes and RM26.6 million for the disabled.

Fostering Arts and Culture

219. Arts and culture depict the identity of a society. In this regard, local works of art and culture must be nurtured to enable them to thrive and flourish and to further cultivate the interests of art enthusiasts. The lack of quality works of art and culture has resulted in promoters bringing in performances from abroad. The Government has provided several facilities, such as Istana Budaya, Philharmonic Hall in KLCC, Kuala Lumpur City Hall Auditorium and several experimental theatres as well as the National Arts Academy training centre. To achieve excellence in arts as well as promote the teaching of arts, the Government has allocated a sum of RM80.3 million, especially for the training of arts and culture.

220. The Government has provided several tax incentives to encourage arts and cultural activities, including exemptions on entertainment duty on stage performances, income of music composers as well as contributions by private sector for the sponsorship of arts and culture. To encourage production of arts and cultural shows involving local artistes, the Government proposes that deduction on contributions by private sector be increased from RM200,000 to RM300,000. This increase is specifically to sponsor performances by local artistes.

221. To encourage the local production of quality films, producers can access loans and venture capital from MTDC. With this, the Government hopes that there will be better quality films produced locally to substitute imported films to be screened in local cinemas and TV channels.

Promoting Excellence in the Civil Service

Mr. Speaker Sir,

222. The public sector delivery system has often been raised in budget dialogues. In this regard, the Government continues to improve its delivery system to ensure the efficient and effective implementation of national development policies and strategies. The process of approval as well as the issuance of permits, licences and CFOs will be streamlined and expedited. The Government will promote the use of ICT through the implementation of e-Government. In the Ministry of Finance, services such as *e-perolehan*, e-SPKB and e-stamping have been implemented. In addition, the issuance of patents and copyrights will be expedited by increasing the number of highly skilled personnel.

223. The Government appreciates the support and commitment of the civil service for their efforts and services in ensuring efficient, effective and successful implementation of development policies, strategies and programmes. For the security forces, including the Police and Armed Forces, the Government values their contribution and

sacrifices in maintaining national security and public order. In appreciation of their services in defending the country, the Government will extend free medical treatment facilities to ex-Sarawak Ranger personnel and wives as well as the wives of ex-personnel of Force 136 and the British Army. The Government will also extend to them the benefits of hospital ward charges currently provided to families of ex-reserve personnel of Malaysian Armed Forces.

224. The Government is also concerned with civil servants without immediate beneficiaries, to benefit from pension upon death prior to retirement. To ensure that the beneficiaries also enjoy similar benefits of pensioners with immediate beneficiaries, the Government will extend the derivative pension benefits, apart from gratuity to either one of their parents.

225. The Government is confident civil servants will strive to provide excellent services and are fully committed in their work and responsibilities. In appreciation of the increase in their productivity and services and after taking into consideration the improved economic conditions, the Government has agreed to pay an additional half-month bonus, making the bonus payment for the whole year to one-month salary.

Appreciating the True Teachings of Islam

Mr. Speaker Sir,

226. Presently, Islam has been associated with backwardness and poverty. Since the 11 September incident, Islam has also been associated with terrorism. In reality, Islam has high regards and respects for its followers who are diligent, possess skills and capable of achieving progress and prosperity in line with the principles of Islam. Indeed, Islam emphasises on civilization or *Islam hadari*, which propagates excellence as a way of life. Islam also promotes peace, stability and prosperity and is against terrorism, aggression and brutality. The international community should get to the root causes of terrorism and not accuse Islam and labelling them as terrorists.

227. Islam as *ad-din* or a way of life encompasses all aspects of life. If we stay with the basic teachings of Islam as in *Al-Quran* and *Hadith sahih*, and not influenced by certain *ulamas* with their own interpretations and teachings, which are against the true teachings of Islam, there is no reason for the Islamic community to be weak, demeaned and oppressed by others. *Allah* commands, as in *surah Ar-Ra'd* verse 1: “*Verily never, will God change the condition of a people until they change it themselves.*” To uplift oneself requires diligence, knowledge and special skills. As such, we in Malaysia do not only pray for help from the Almighty but also seek knowledge and skills as well as implement our development plans and defence to ensure security for the

nation. In this regard, many leaders and *ulamas* including Sheikh Al Azhar have openly proclaimed Malaysia as an Islamic country that should be emulated by other Islamic nations.

228. The perception that Islamic nations must be poor, backward, with a government that is always asking for aid and weak, as in states governed by those who are not competent in administration, indeed humiliates Islam. These states cannot become the model of Islamic nations capable of bringing back the past glory of Islamic civilization.

229. The Government will continue to emphasise measures to instil the true teachings of Islam to ensure Muslims are imbued with noble values and not be misguided by wrong teachings by those who have worldly political interests. Towards this end, Jabatan Kemajuan Islam Malaysia (JAKIM) will implement additional programmes to enhance understanding and appreciation of the teachings of Islam. A sum of RM228 million will be allocated for these programmes. The Government also provides RM105 million to undertake the construction of training complexes, religious schools, mosques as well as the development of an Islamic information system.

230. As an Islamic nation, the Government is concerned with the rising costs of performing the Haj. As such, the Government is committed to ensure that such cost is contained. Otherwise, we are concerned that in the future, many Malaysians in rural and urban areas will be unable to perform the Haj.

231. A major portion of the costs in performing the Haj is for air travel and accommodation in Mekah and Madinah. As such, Syarikat Penerbangan Malaysia Bhd (PMB) will acquire two aircrafts with the view to reducing the high lease cost to Tabung Haji. In addition, Tabung Haji will increase the construction and acquisition of accommodation in Mekah and Madinah to contain the increase in the cost of accommodation. The Government is pleased to announce that the cost of performing the Haj through *muasasah* in 2004 will be reduced by 5%.

ECONOMIC PROSPECTS IN 2004

Mr. Speaker Sir,

232. The external environment is expected to further improve in 2004, particularly for several developed countries. This is attributed to the expansionary fiscal policy, low interest rate regime, wealth effect from the bouyant stock markets as well as lower petroleum prices. In addition, consumer confidence remains strong while private investments have also recovered.

233. The economic prospects for the region are also expected to strengthen following the end of the spread of SARS as well as the increase in private consumption and regional trade. China is expected to continue to record high growth, with Korea, Taiwan and Hong Kong also registering stronger growth in GDP.

234. The Malaysian economic performance in 2004 is projected to continue to expand strongly supported by robust domestic economic activities as well as the recovery in external economies. In line with this development and the positive impact of the Package of New Strategies, GDP is forecast to further expand between 5.5%-6% in 2004. The private sector is expected to spearhead economic growth with private investment expanding strongly by 9.9%. Private consumption has also responded positively to the stimulus measures and is projected to expand at a higher rate of 7.7%.

235. The manufacturing sector will continue to be the main contributor of growth and is expected to increase by 7.2%, while the services sector by 5.5%. With the policy emphasis and strategies on the agriculture sector as well as high commodity prices, the sector is expected to expand steadily by 3%. The mining sector is also expected to grow by 3.5%, following the increase in the production of LNG and natural gas.

236. In line with fiscal consolidation policy, the Federal Government financial position is expected to improve with the budget deficit declining from 5.4% to 3.3% of the GDP. If global recovery is stronger in the near term, the objective of attaining a balanced budget is expected to be achieved in 2006. Higher world economic growth will contribute towards strengthening the public sector account, which is

expected to register a surplus of 0.4% of the GDP in 2004 compared with a deficit of 1.5% in 2003.

237. Consistent with GDP growth, the per capita income is expected to increase to RM14,954 while the purchasing power parity of Malaysians will rise to almost US\$10,000. Prices are expected to remain low, with the Consumer Price Index forecast at 1.3%.

CONCLUSION

Mr. Speaker Sir,

238. Since Independence, the nation has gained considerable success and achieved significant progress. In a span of almost half a century, we have been able to sustain prosperity in an environment of peace and harmony as well as unity among Malaysians. We have also succeeded in maintaining political stability, on account of the strong solidarity of the Barisan Nasional Government, which upholds the principles of equitable collaboration, sincerity in our efforts as well as willingness to sacrifice for the nation. This has been our tradition. This is the uniqueness of our political collaboration that has strengthened and fostered unity among all races under one nation.

239. However, we cannot be complacent of continued success. The external environment continues to remain difficult, with increasing threats and intimidations as well as aggression and oppression. The

peace that we hope for is still far away, while the acts of terrorism that we abhor, still have not subsided. As a small nation in the global community, we are not spared the impact of the difficult external environment.

240. We must be brave to face all these challenges. We must be prepared to undertake strategic shifts in our drive to safeguard and sustain the progress and prosperity that we have painstakingly worked for. I had urged all Malaysians to make this paradigm shift when I tabled the Budget 2003. We must undertake this shift with greater vigour, determination and perseverance. We cannot be complacent, neither can we waver in our efforts to effect changes. We must be courageous and steadfast to face all obstacles and constraints. We must be willing to sacrifice, set aside our self-interests and avoid discord and conflicts among us. We must be more tolerant, reinforce our cooperation and foster unity towards building a prosperous and harmonious Malaysian society.

241. I pray to the Almighty that our beloved nation will continue to be bestowed with prosperity and dignity. God willing, I am confident that this nation will continue to progress, that Malaysians will be blessed with continued prosperity and well-being as well as respected by the world community.

Because of you Malaysia
We uphold the nation, unite the people

We set a thousand steps forward
Together we strive in darkness, riding the waves
Seeking for the light, reaching for the dream
Defying a million obstacles
Though we may fall
We shall persevere to achieve our vision

Peaceful is my country
Blessed with success, bestowed with prosperity
United we stand, resolute in determination
Glow the spirit of patriotism
The world has acknowledged
Our dignity has been upheld

No more aggression
No more humiliation
Our independence enshrined
Peaceful is my country.... Malaysia

Mr. Speaker Sir,
I beg to move.