

PROPOSED 2008 MALAYSIAN BUDGET



Malaysian First :

UNITY DRIVEN EQUITY, GROWTH & INNOVATION



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FOREWORD TO DAP'S MALAYSIAN FIRST BUDGET 2008



Lim Guan Eng

DAP is proud to present our first budget on 5 September 2007 in Parliament House with the apt title of Malaysian First Budget 2008. What can better a more appropriate moment to signal DAP's policy-making contribution towards nation-building, than to choose the occasion of our nation's 50th Merdeka Anniversary celebration.

Malaysian First 2008 Budget is for all those with abiding love for our country who were born, grew up and intend to die here.

Too often have our discourse on economic competency, management performance, market efficiency and socio-economic justice been coloured and distracted by political or non-economic considerations. Such were the prevailing sentiments in the

immediate aftermath of the Cold War between the Western Powers and Communism where economics was driven by purely political considerations.

However from the late 70s, the pendulum swung in the other direction when politics no longer drove economic policies but were driven instead by economic considerations. Beginning with China's paramount leader Deng Xiao Peng opening up China's economy, China finally abandoned communism with the unique definition of socialism with Chinese characteristics or what most academics would describe as capitalism with socialist characteristics.

By abandoning dogma and its past political and historical burdens, China transformed itself from a poverty-ridden economic backwater to a global economic powerhouse. By the end of 2007, China would exceed Germany as the third largest economy in the world. A China transformed via soft power of economic performance has accreted more world influence than it could ever achieve through superiority of military strength or ideological purity.

The thundering rise of economic giants like China and India has immediate lessons of the rewards of abandoning political and historical burdens. Nothing summarises this new mentality amongst China's new elite when even industrialists and the government of the city of Nanking seeks Japanese investors despite the horror of the Nanking Massacre during the Second World War.

Malaysia is looking backwards by taking the opposite approach clinging to our historical burdens such as requiring non-Malays make up for Malays being oppressed by nearly 500 years of colonialism when non-Malays suffered under the same oppression from the colonialists. Sadly, Malaysia's economy is still rooted in the Hitlerian model of racial dominance where politics takes precedence over competency and quotas over performance.

Using The Past To Illuminate The Future And Not Blind Us To The Way Forward

The past is supposed to illuminate the future to try to show us the way forward. Unfortunately BN has used the light from the past not to illuminate but to blind us to the future. Malaysian policy-makers are still stuck in the dogmas and diktats of ketuanan Melayu and the New Economic Policy when we should be talking about national unity through Bangsa Malaysia and open competition to face the challenges of globalization.

The promulgation of state interventionist economic policies led by the New Economic Policy (NEP) that promoted racial preferential quotas under the pretext of equitable wealth redistribution and sanctioned political patronage and self-aggrandisement under the guise of wealth creation. Whilst the goal of the NEP was also to eradicate poverty regardless of race, the primary focus was the creation of bumiputera millionaires and an accelerated expansion of a bumi business community by all means necessary.

This primary focus gave NEP a bad name as a vehicle for corruption, cronyism and abuse of power especially when it was extended beyond its 20-year shelf life in 1990. US finance house Morgan Stanley estimated US\$100 billion lost to corruption since the 1980s. The latest government bailout of the RM 4.6 billion Port Klang Free Trade Zone scandal proves that Malaysia has still not made any progress at all in establishing integrity, accountability and transparency in governance.

The NEP also alienated and angered many non-bumis who could not understand why they had to sacrifice for the wealthy bumis. Non-Malays are not angry with the NEP for helping poor Malays. Neither are Malays incensed with the NEP for helping poor non-Malays. What all Malaysians are furious with the NEP is that the NEP is used as a tool of crony capitalism and patronage to enrich the wealthy.

Finally, the insidious erosion of our national psyche by systematically dividing Malaysians by race and religion – bumis and non-bumis, Muslims and non-Muslims. Whilst we can blame the British for introducing this divide and rule policy, the insidious fault lines created has sheared our souls and haunts future generations by creating many nations of different races within a nation-state. Ethnicity and religious beliefs not universal values of justice will shape outcomes.

Unlike in America where everyone is an American, here in Malaysia we are either Malays, Chinese, Indians, Kadazans or Ibans. This is probably the greatest injustice of all in refusing to treat every Malaysian equally. Bangsa, agama dan negara is only directed at one community.

We continue to be divided by the colour of our skin or the beliefs in our hearts or our political affiliations even though our blood is of the same colour. Instead of one people, one Bangsa Malaysia in a secular state we have racial dominance and an Islamic state. What is so difficult about accepting Bangsa Malaysia which was described by Mahathir “as people being able to identify themselves with the country, speak Bahasa Malaysia and accept the Federal Constitution”.

Until we revert back to Bangsa Malaysia and ketuanan Malaysia, can we reclaim our Merdeka heritage and the promises made. The damage done from such misguided policies is most obvious in the economic sphere. The foreign specialists of Malaysian affairs can not fail to be puzzled at the stubborn refusal of ordinary Malaysians, who are no less educated and intelligent than them, to see through the self-serving economic policies that are detrimental to the common good of the country.

Perhaps such inertia explains why the European Union Ambassador to Malaysia Dr Thierry Rommel was moved to severely criticize the NEP as anti-competitive, a lack of a level playing field and an unacceptable cost of doing business in Malaysia. He added, “Together with an inefficient public service, corruption and the questionable and unchecked practices of Malay preferential treatment, it had also dampened the business environment and economy of the country.”

Even the government has conceded the defects of the NEP when it exempted investors in the Iskandar Development Region in Johor from the NEP. A million Malaysians who voted with their feet by emigrating overseas for the last 35 years is the strongest indictment of the failure, injustices and discrimination of the NEP. Money lost can be earned back but human resources and brain power is irreplaceable.

Only when there is unity, justice and equal opportunity can we enjoy prosperity. DAP offers our proposed “**2008 Malaysian First Budget: Unity Driven Equity, Growth & Innovation**” that is a holistic approach covering diverse areas from education, social welfare and aid, battling crime, energy conservation, sustainable development with the environment, affordable and available access on the internet broadband, fair wage for workers, efficient tax structure, research and development, improving our competitiveness and establishing value-added industries that face up to the challenges of globalization.

The government must not forget its primary duty of crime prevention by establishing the four basic rights of security to allow everyone the right to live, work, study and play in a safe and secure environment.

The main thrust of DAP’s Malaysian First 2008 Budget would be to establish the conditions of good governance that permits hardworking and talented Malaysians to get on with the business of creating wealth and succeed in life. More importantly the government must learn to get out of their way and not intrude on their activities unnecessarily. The real win-win solution is where every Malaysian learns together, grows together and reaps the rewards together.

One final word of appreciation is to the immeasurable contributions of my Economic Advisor Tony Pua, without which this Budget would not be possible and also the team of translators comprising Lee Kee Hiong, Thing Siew Shuen, Lau Weng San, Liew Chin Tong and Ng Wei Aik.

LIM GUAN ENG
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KEY BUDGET HIGHLIGHTS

The proposed DAP 2008 Malaysian Budget focuses on the twin challenges of globalisation and our high dependence on oil and gas resources. With increasing competition from other developing countries and the rapidly evolving technology markets, it is critical that Malaysia puts in place a system which will be able to exploit the opportunities provided by, and at the same time mitigate the negative impact resulting from globalisation. At the same time, a 40% dependence on government revenue from the oil and gas sector is of serious concern, especially in the light of oil reserves which will last for only another 2 decades and Malaysia becoming a net oil importer by 2011.

This Budget will also serve as a distinct departure from the current administration's New Economic Policy (NEP) which is driven by race. The underlying rationale and approach to our Budget is the "Malaysia Economic & National Unity Strategy" (MENUS) which will be based on performance, competence and needs of all Malaysians.

Therefore it is imperative for the Government to build new capacities for the future to ensure that our productivity increase is more than sufficient to replace declining contribution from the oil and gas sector. At the same time, we will strengthen our social security system to ensure that the poor, less fortunate and under-privileged are not left behind in our pursuit for excellence. The wealth of natural resources on our shores must be shared equitably to make sure that everyone gets to benefit and taste the fruits of our land. We must also shake off our habit of designing world-class blueprints, only to fail miserably in their implementation. The DAP will put in place a robust system to improve productivity and competitiveness of the government's delivery system.

Finally, we will utilise responsibly all fiscal measures and tax instruments to ensure that the country does not bury itself in debt and to avoid expenditure on mega-projects which are unlikely to bring significant benefits to the population. Our policies are designed to make ourselves competitive relative to our neighbours as well as to nurture dynamic innovative and entrepreneurial Malaysians.

The key policy measures proposed in the Budget include:

- Legislating the use of oil and gas revenue to ensure that a substantial portion of the revenue is spent on education as well as research and development to build the necessary economic capacity for Malaysia, to ensure that the increases in productivity and innovation will more than compensate for the expected decline in oil revenues. It is proposed that 50% of oil and gas revenues be invested in human capital and research and development, while another 25% be used to strengthen the social security for Malaysians who are in need. Legislating the utilisation of funds will also prevent the mis-allocation of resources to bailout failed projects or other non-productive sectors.
- Hence, RM43.3 billion is allocated for education and training, accounting for 26.3% of the overall 2008 Budget. The focus of the expenditure will be to enhance the qualitative elements of education instead of the quantitative elements. Of 250 new schools to be built, 60 and 15 will be Chinese and Tamil schools respectively to resolve the often severe overcrowding faced by these schools. RM3.2 billion has also been allocated for Research & Development.
- RM13.6 billion is allocated to improve the quality of the nation's transportation infrastructure, particularly the public transport system. The bulk of the increase goes to development expenditure for transportation, which will increase from RM7.3 billion to RM9.5 billion. Key attention is given to the 3 highly congested urban centres – the Klang Valley, Penang Island and Johor Bahru. A blueprint for the "Valley Circle" rail network will also be developed to improve inter-suburban connectivity, by-passing the congested Kuala Lumpur city centre.

- Barisan Nasional's policies of guaranteeing highway toll concessionaires as well as independent power producers (IPPs) extraordinary profits with grossly unequal contracts with little or no risks to the latter are the clearest cases of the Government failing to protect public interest. The impact of these policies are increasingly felt today with rapidly rising toll rates and energy prices. It is hence imperative that the Government renegotiate these contracts to protect the interest of the public within a 6 month period. In the event whereby no significant headway is made in the negotiations, it is proposed that the Government move to acquire the assets of these entities. The resultant savings will then be passed on to consumers or be diverted to other public interest projects, such as the public transport system.
- When the Government launched the Multimedia Super Corridor (MSC) project 10 years ago, it promised to make every effort to grow and support local MSC status companies. However, despite the rhetoric, the Government being the largest consumer of information technology services in Malaysia has not given preference to these companies. It is therefore important that in this proposed budget, Malaysian MSC status companies be given specific preference in tendering for the Government IT-related contracts to help nurture these companies into successful regional players.
- As part of our philosophy, no person or community in need, irrespective of race or religion will be denied the necessary government assistance. In line with this, the DAP will implement "FairWage", a policy which serves to improve the livelihood of low wage earners above the age of 35, which will at the same time incentivise employers to provide increased employment opportunities. A "Malaysia Bonus" of up to RM1,200 will be granted to Malaysians with income not more than RM3,000 per month. In order to assist the elderly above the age of 60, many who are having problems making ends meet, those qualified will enjoy an the "Senior Malaysian Bonus" of up to RM1,000. These bonuses are channelled into their respective EPF accounts.

The FairWage policy and Malaysian bonus will cost approximately RM9.3 billion to administer. It is part of the proposed programme to share the fruits of the nation's wealth, particular from the oil and gas sector with all Malaysians in need. In the longer term, more assistance programmes will be carried out in this grant-based mechanisms which are means tested instead of via subsidies which are distortionary in their impact, and often disproportionately benefiting the wealthy.

- One of the core pillars of MENUS is that all Government contracts should be tendered in an open, competitive and transparent manner. All qualified companies shall be provided with equal opportunities to secure Government supply contracts and projects. To prevent overwhelming disruptions to the current system, this policy, free from race-based requirements, shall be implemented on a gradual basis, commencing with projects or supply contracts sized above RM10 million for 2008. In view of the challenges brought by globalisation, all tenders shall be made competitive, open and transparent by 2015. Assuming a conservative 10% savings is achieved via the new tendering system, this will result in absolute savings in excess of RM5 billion per annum in conjunction with quality improvements.
- The transformation of the Malaysian economy into one that is knowledge-based will not succeed without the critical ingredient of innovation and entrepreneurship. Therefore it is proposed that the Government set up a new RM250 million seed fund, STARTUP where we will act as a matching co-investment fund with reputable private investors who will assist in the mentorship of the start up companies. To encourage private investor participation, losses incurred by such investments shall be tax deductible from the investors' individual or corporate income tax. To further boost entrepreneurship, start-ups shall enjoy full tax exemption on their first RM200,000 chargeable income for each of their first 3 years of assessment.

- Government revenue from small medium enterprises which constitutes more than 99% of all enterprises in the country has clearly declined with the dependence on oil and gas revenue. To revitalise the SME sector, and to assist many SMEs whose counterparts in many countries in the region enjoy significant tax advantages, it is proposed that the tax rate for SMEs on their first RM500,000 chargeable income be reduced to 18% from the current 20%. In addition a new partial tax exemption threshold will be set at RM200,000 and taxed at 12%. This means that a SME with a chargeable income of RM900,000 will be taxed at an effective rate of 18%, in line, particularly with its competitors across the causeway in Singapore. This measure will help make Malaysian SMEs to be more competitive and at the same time attract more SMEs to set up business in Malaysia, creating more employment opportunities.
- DAP is proposing a 1% reduction of the top tax bracket to 27%. More importantly however, there will be a revision and a simplification of the progressive tax brackets which will result in significant reduction in taxes by all. Most importantly, to assist Malaysians to cope with the rise in living expenses, particularly in urban areas, the first RM15,000 chargeable income will become tax exempt, with the subsequent RM15,000 taxed at 7%. Currently, only the first RM2,500 is tax exempt while the next RM2,500 is taxed at 1%. Based on the new tax structure, a married worker with RM3,000 pay per month, a full-time housewife who looks after 2 young children will pay no taxes, whereas under the previous tax structure, he will be expected to pay between RM55 to RM445 depending on his insurance premiums and medical expenses for his family, including parents.
- The rate of global climate changes is accelerating and it has become absolutely necessary for Malaysia to play its part in protecting the environment. Hence, a “Green Tax” is to be implemented in 2010 whereby a “carbon tax” is charged at RM25 per tonne of CO₂ equivalent, with the exception of methane emissions from the agricultural sector as well as special exemptions for carbon intensive businesses which adopts global best practices on emissions. In addition, a 5% severance tax shall be imposed on the extraction of metals and forestry products in the country. However, companies which secure certification from The Forest Stewardship Council (FSC) accredited certification bodies will be granted the severance tax exemption for promoting responsible management of the forest.
- As a part of our new source of revenue as well as to negate the rent-seeking culture, the approved permits (APs) current issued for free by the Ministry of International Trade & Industry to a select pool of “businessman” shall be auctioned to the highest bidders instead. Based on an estimated 70,000 APs issued per annum and a conservative RM25,000 market price, the auction will provide an additional RM1.75 billion to the government coffers.
- Women will also benefit significantly with the proposed extension of paid maternity leave from 60 to 90 days if they have worked for at least 180 days prior to delivery with the employer. Their pay will be shared equally by both the employer as well as the government. This together with other measures proposed in the Budget will play their role in strengthening the bond between the mother and child, promoting strong family values, while at the same time, encourage more women to join the workforce. As at 2004, Malaysian women participation in the work force stands at 47.3%, significantly below that of our neighbours, Singapore and Thailand at 53.9% and 64.2% respectively.
- Finally, this budget represents a budget which seeks active involvement from the civil society. Instead of attempting to tackle all issues on its own, which the government will not be able to competently and effectively, sizeable grants will be made available to specialist non-governmental organisations (NGOs) to promote, educate and run various social causes and programmes. RM240 million has been set aside as partial or full grants for NGOs to pursue environmental causes, eliminating poverty, promote healthy living, managing women issues or assisting the disabled, to be disbursed over the next 5 years.

INTRODUCTION

GLOBAL STATE OF AFFAIRS

1. After solid and broad-based growth for three consecutive years, the world's economic growth is moderating in 2007, in line with the early projection of World Economic Situation and Prospects 2007. The growth of the world gross product (WGP) is expected to slow to a pace of 3.4 per cent for 2007 as a whole, down from 4.0 per cent, as recorded in 2006. The slowdown is expected to stabilize in 2008 with a projected growth of WGP at 3.6 per cent.
2. The United States (US) economy grew by a solid 3.3% in 2006, reflecting an upturn in business investment and robust private consumption. However, quarterly GDP figures demonstrated a visible slowdown in the second half of 2006 and the year ended on a less positive note. GDP in the United States, among developed economies, is expected to grow at a sluggish pace of 2.1 per cent in 2007, a significant deceleration from 2006. The weak spot was mainly associated with the housing sector retrenchment. Residential investment contracted for five consecutive quarters from the last quarter of 2005, and both new and existing home sales fell significantly in the latter half of 2006. As reflected in the recent turmoil in the US subprime credit markets, it is yet premature to conclude that turmoil in the housing markets will not spread to the rest of the economy, which will at the end of the day affect the global economy.
3. The Japanese economy continues a moderate but steady recovery, registering 2.2% growth in 2006. Strong exports and export-induced business investment are underpinning the recovery, since private consumption is trudging along only slowly. In the outlook, the economy is expected to expand by 2.1 per cent in 2007. Solid corporate profits underpin investment in the replacement and expansion of production capacities, while improved conditions in the labour market are expected to buttress consumer confidence and household consumption.
4. In the Euro area, GDP grew by 2.7 per cent in 2006, marking the strongest growth performance since 2000. Exports and investment were the key driving force, but consumption expenditure, which had been a major drag to growth in the past, also contributed significantly. Business and consumer sentiment has improved. Strong corporate profits and cheap credit bolstered capital spending. This upward trend in turn exerted a positive influence on consumer spending, forming the bedrock of sound and balanced growth. Unemployment rates have trended down, and are now firmly under 8%.
5. Growth in East Asia accelerated to above 8 per cent in 2006, but some moderation is expected for 2007. Its largest economy of the region, China, posted GDP growth of 10.7 per cent in 2006. Exports remained the main driver of regional growth, while domestic demand also recovered in most economies. Not only was there strong global demand for the region's exports, but the buoyant Chinese economy continued to gain in importance as an export destination for the other East Asian economies. This growth pattern in East Asia is expected to continue during the current year, although tightening measures in China as well as the expected global deceleration in growth will lead to a slight slowdown in the region.
6. Global equity markets have advanced strongly over the past two years, reflecting solid economic growth, rising corporate profit shares, and continued low long-term interest rates. Meanwhile, both interest rate spreads for traditional high-risk borrowers and measures of asset price volatility have narrowed to an unprecedented degree. The recent bout of global asset market turbulence initiated by a sudden sell off in the Chinese stock market serves as a

useful reminder that these favourable asset market developments may not endure forever. If the improvement in fundamentals driving the advance in equity values and the contraction of risk spreads were to reverse or even stagnate, global asset markets could sell off with adverse implications for consumption and investment.

7. World trade expanded rapidly in 2006, in volume terms accelerating to 9.7% from 7.7% in 2005 (according to World Bank estimates). Improved demand conditions in major industrial countries, along with firming consumer spending in Japan and the euro zone, buttressed strong industrial production both for major industrial countries and for developing Asia. Robust export performance from developing Asia also shored up world trade growth.
8. With a less buoyant economic performance projected for 2007, world trade growth is projected to moderate to 7.5% in export volume terms.
9. The strength of the global economy in 2006 boosted global sales of consumer electronics. Worldwide semiconductor sales set another record (\$247.7 billion) in 2006, an increase of 8.9% from the previous year, while sales in the Asia-Pacific region registered a 13% expansion, driven by strong China demand.
10. Demand for consumer electronics is partly supported by relentless global competition and falling prices. Dynamic random access memory (DRAM) prices, a proxy for global high-tech prices, have been slipping on fierce global competition and improved production capacity. Falling prices of popular consumer electronics have started to weigh on profit margins of the world's largest producers. Given the buoyancy of global demand, producers have maintained profits by expanding the volume of sales. But as the US economy, which is the largest market for end products, is expected to slow, further erosion of profits seems inevitable and could precipitate a downturn in the industry cycle.

PROSPECTS & RISKS FOR THE GLOBAL ECONOMY IN 2008

11. The outlook for the global economy encompasses a number of uncertainties and risks. The downside risks to the outlook include a much more severe downturn than what the baseline is projecting in the ongoing correction of the housing sector in a number of economies, particularly the United States; a disorderly adjustment of the global imbalances; higher oil prices; the possible outbreak of avian influenza; and unpredictable geopolitical shocks.
12. The downturn in the housing sector of the United States has accelerated since the second half of 2006. The meltdown in the sub-prime mortgage market at the beginning of 2007 has further heightened the risks for a longer and deeper slump in the housing sector and for a possible spread of the weakness to the overall economy. The sub-prime mortgage market serves clients with poor credit histories or with insufficient financial resources. In early 2007, data indicating that delinquency rates in the sub-prime market had risen to more than 13% in the fourth quarter of 2006 set off a crisis among sub-prime lenders. While some of the lenders filed for bankruptcy, others sought buyers or closed operations.
13. According to the World Economic Prospects 2007 published by the United Nations, in the baseline outlook, the correction in the housing sector of the United States is expected to continue during 2007. However, risks for a much more severe adjustment in housing prices are not negligible: since 1997, there has been an appreciation in housing prices in the United States of about 80 per cent in real terms (adjusted by inflation rates), compared with a real appreciation of just 10-20 per cent in previous booms, implying more room on the downside.
14. After a further widening during 2006, current-account imbalances across countries are

expected to narrow slightly in 2007. The deficit of the United States had risen to about \$860 billion by the end of 2006, or 6.5 per cent of its GDP, and is expected to fall to \$800 billion in 2007. Most developing regions are running surpluses. The surplus in developing Asia exceeded \$200 billion, with China being the main contributor, and will remain on a similar scale in 2007.

15. Despite the small projected narrowing of the current-account deficit in the United States, the risks for a disorderly adjustment remain, as the indebtedness of the United States will continue to deepen. As a result of the chronic current-account deficits over the past decade, the net international investment position of the United States is estimated to have exceeded \$3 trillion by the end of 2006. Another deficit of \$800 billion in its current account will further add to the net debt position of the United States, making it less and less tenable.
16. The IMF has also expressed concerns about the oil market and capital flows, saying while the global economy had easily shrugged off the high oil prices driven by increased demand, "a supply shock could be much more damaging to global growth." Inflows of capital to emerging economies could complicate macro-economic management and expose the countries that receive them to an abrupt reversal of flows when sudden shocks occur.
17. The market for oil is exceptionally tight. So far, the global economy has shrugged off high oil prices in part because the high prices are themselves largely the product of economic growth which has led to rising demand for oil. But there are also considerable vulnerabilities on the supply side, with respect to both production and refining, and a supply shock could be much more damaging to global growth.

THE CHALLENGES AHEAD FOR MALAYSIA

Globalisation

18. Globalisation brings both new threats and opportunities for the Malaysian economy. Should we rest on our laurels and continue to believe that we can be sheltered by the proverbial coconut shell, it will only result in irreparable damage to the economy. However, if we were to instil in our economy the spirit of resilience as well as the ethics of competition, hard work and innovation, Malaysia will be able to achieve its full potential via the vast opportunities provided by globalisation.
19. Today, capital, enterprise and talent are flowing to countries where government can be trusted, where the workforce is well-educated and skilled, and where the quality of life is high. These are key pillars of our economy and our country which we must build in order to reap the full benefits of globalisation.
20. Malaysia used to attract some of the biggest technological giants such as Intel, Motorola and Dell to develop and manufacture their latest technologies in the country. However, in the past decade, we have clearly fallen behind in terms of advancement in manufacturing technology. For example, Malaysia's current leading semi-conductor wafer-fabricator, SilTerra Malaysia Sdn Bhd offers major foundry compatible CMOS logic, high-voltage and mixed-signal/RF technologies down to 130 nanometer feature size. SilTerra's wafer fab has a design capacity of 40,000 eight-inch wafers per month.
21. However, semi-conductor technology has advanced significantly with state-of-the-art 90-nm technology on 300-mm wafers, and 65-nm production. In fact, 45-nm process technology is now under aggressive development. Our neighbours, Singapore, for example, is attracting more of the 'first-of-its-kind' investments such as the chip used in the latest PlayStation3 and

Xbox. A French semiconductor company, Soitec, is investing \$700 million to set up in Singapore its first offshore facility to make the wafer for this chip. It is high precision, high technology. The wafers have alternating layers of silicon and insulator, unlike conventional wafers which use silicon throughout. Singapore became the only country in Asia that it trusts well enough to set up its first manufacturing campus outside of France. Hence, it is key for Malaysia, in the age of globalisation, to bring back global investments in leading age technologies.

22. At the same time, with increased exposure to globalisation, we are clearly facing a worsening of our income distribution. In particular, there has been slow or no growth in wages at the lower end. The income share of the bottom 40 per cent of households decreased from 14.0% in 1999 to 13.5% in 2004 while that of the top 20% of households increased from 50.5% to 51.2%. Consequently, the Gini coefficient worsened from 0.452 in 1999 to 0.462 in 2004. All ethnic groups recorded an increase in the Gini coefficient during the period. The inequality among Bumiputera was the highest compared with the Chinese and Indians. Income inequality in Malaysia has been ranked the worst in Southeast Asia.
23. Globalisation, corresponding with a drastic increase in competition for skilled labour and global talents, has resulted in widening income gaps between the skilled and the low-skilled, between the young and old, between those who are nimble enough to adapt quickly to the market and those who aren't.
24. Therefore our approach to globalisation is twin-pronged. Firstly, we must embrace globalisation, particularly in terms of open economic competition so that Malaysia, as a whole can grow to its full potential. However, we must at the same time carefully manage the negative impact of globalisation, particularly on the less educated and lower income group in the country.
25. To face up to the opportunities provided by globalisation, it is critical that we build capacity and capabilities, with the greatest emphasis on education and human capital development for the future. At the same time, we must attract new investments, grow new businesses, and create new and better paying jobs to replace old ones.
26. To bring the economy forward, it is hence critical that we develop a "Malaysian Economy & National Unity Strategy" (MENUS) to fully exploit the strengths and talents of all Malaysians to contribute towards the growth of the country. MENUS will replace the outdated New Economic Plan (NEP) with a distinct shift in focus from a race-based economic agenda to one which serves to promote efficiency, competitiveness and equality of opportunity for all Malaysians.
27. MENUS will promote a productivity driven and private sector-led economy that requires comprehensive reforms to education, as well as the private and public sectors. The reforms should increase the incentives of people to acquire and make the full use of human capital and for companies to invest and innovate to be stay ahead of competition. Earlier policies within the NEP which is incompatible with private incentives that causes the outflow of talented people and businesses to other countries that offer a better deal for their endeavours must be reversed.
28. An integral element of MENUS is to ensure that business contracts tendered in the private sector, including Government-linked companies (GLCs) shall be based on the quality and price of the proposal, and not based on racial composition requirements. At the same time, to ensure a smooth transition from the NEP system to MENUS, Government contracts shall be migrated to a open, transparent and competitive tender system based on quality and price over a 5 year period. The tender process for all government projects above the value of RM10 million shall immediately be migrated to the new system, and all such projects must be

tendered openly and competitively.

29. MENUS will ensure that there will be minimal wastage of economic resources we have observed in recent years due to government bailouts of large projects. The poor delivery system has resulted in catastrophes, such as the Middle Ring Road II increase in cost from RM120 million to RM190 million and the MATRADE Building from RM167 million to RM287 million. It will also eliminate poor workmanship seen recently, such as the renovation works for the Parliament, the construction of the mega Jalan Duta Court Complex as well as the government buildings in Putrajaya.
30. However, as we grow the economy, we must ensure that no one is left behind, irrespective of race, religion or creed. All Malaysians have the opportunity to succeed. Under MENUS, we will ensure that all social subsidy programmes target the deserving groups, particularly those from rural areas as well as lower-income families. Subsidies and grants shall be focused strictly on lower-income groups, instead of being abused and wasted on the wealthy. As part of MENUS, the DAP will propose to allocate RM9.3 billion in 2008 as grants and income supplements for the lower income groups. The key objectives of these grants and income supplements will serve the dual function of easing the financial burden of the needy as well as incentivising and improving their abilities to secure better opportunities. This programme is a major cornerstone for the Government to share the country's wealth derived from the oil and gas sector with the rakyat.

Reliance on Oil & Gas

31. Malaysia is a country blessed with abundant natural resources. In particular, we are thankful that the country is rich in oil and gas, which created Malaysia's sole representative in the Fortune 500, Petrolia Nasional Berhad (Petronas). In the most recent financial year ending March 2007, Petronas achieved record profits before tax of RM76.3 billion thanks to record high crude oil prices which increased from under US\$25 per barrel to above US\$70 all within 4 years.
32. Of greatest importance, was the fact that Petronas contributed RM53.7 billion to our national coffers in taxes, royalties, dividends and export duties last year. Contribution from Petronas and other oil and gas companies operating in Malaysia was budgeted to make up some 46.8% of the government revenue for 2007. This represents a steep increase from approximately 30% in 2006 and 25% in 2004. These statistics marks Malaysia's heavy reliance on oil and gas industry today.
33. Malaysia's abundance of oil & gas resources is akin to striking lottery. It is a once-off affair, and at some point of time, our reserves will run dry. According to Oil & Gas Journal, Malaysia held proven oil reserves of 3.0 billion barrels as of January 2007, down from a peak of 4.6 billion barrels in 1996. These reserves will last us for only another 20 years or so.
34. In addition, Malaysia is expected to become a net oil importer by 2010 assuming a conservative growth of 4% in petroleum products consumption. Our trade current account surplus has also been boosted significantly by oil and gas related products which constitutes more than 11% of our exports. The frightful acceleration of dependence on our limited oil and gas resources places the country's economy at great risks.
35. Malaysia must not fall into the trap of what economists call the "resource curse", that is countries devoid of natural resources fare better than countries better endowed. Countries such as Hong Kong, Singapore and Switzerland contrasted against the oil-rich but poorly developed Middle East countries immediately come to mind. This appears to be closely

related to the phenomenon known as the Dutch disease. The Netherlands in the 1960s, after its discovery and depletion of oil and gas in the North Sea, was plagued with unemployment and an unproductive manufacturing sector due to the negative side effects of such a discovery.

36. What is perhaps most worrying for Malaysia, with the reliance on natural resource overshadowing the other productive sectors of the economy, is the resulting “rent-seeking economy” where influential parties within the government together with external parties focus their efforts in securing a larger share of the economic pie, instead of creating a bigger pie.
37. Therefore the DAP proposes in this Budget that the Government legislate that 50% of our windfall from oil and gas is kept under lock and key, with the sole purpose for investment in human capital as well as research & development, over and beyond our typical expenditure on education and training. In addition, 25% shall be legislated for use in our social security system while the balance may be used for development expenditure of the national budget. This way, the funds will be prevented from being expensed to an unproductive and wasteful rent-driven economy. All unutilised allocation from revenue derived from the oil and gas sector shall be maintained in a stabilisation fund for future investments in the legislated segments. To quote Economics Nobel Prize winner, Joseph Stiglitz, “abundant natural resources can and should be a blessing, not a curse. We know what must be done. What is missing is the political will to make it so.”

BUDGET OBJECTIVES

38. This Budget is significant in that it seeks to shift Malaysia's stagnating underlying economy to a more dynamic performance-oriented economy which can compete with the best in the world, which will also reduce our increasing dependence on oil & gas revenue. The DAP seeks to achieve the above objectives by harnessing the synergistic energy and benefit from a united Malaysian population in achieving these common goals. At the same time, DAP proposes to redress persistent socio-economic inequalities between the wealthy and the poor, regardless of race, religion or creed. Hence the core thrust of the DAP Budget for Malaysia in 2008 are:
 1. To Build New Capacities & Capabilities for the Future;
 2. To Strengthen our Social Security System;
 3. To Improve Productivity & Competitiveness of Existing Delivery System
39. The proposed 2008 Budget for Malaysia is therefore themed “**Malaysian First: Unity Driven Equity, Growth & Innovation**”, a budget to unite Malaysians to meet the challenges of the future, dedicated to Malaysia's 50th anniversary of independence.

BUDGET ALLOCATION

40. For 2008, DAP anticipates an increase in Government revenue by 8.5% to RM146.3 billion compared to RM134.8 billion in the previous year. The Government revenue is boosted to a large extent by persistently high oil and commodity prices as well as a performing financial sector boosted by global liquidity. It will however be moderated with a relative decline in income tax revenue with a scheduled fall in income tax rates from 27% in 2007 to 26% in 2008, as proposed in the Budget for 2007. Based on the proposed expenditure of RM166.7 billion in the Budget, we will incur a reduced budget deficit of RM20.46 billion, or healthy 3.23% of the Gross Domestic Product (GDP) instead of at least RM24.2 billion in 2007. Please refer to Annex A and B for details on the estimated federal government financial position and revenue.
41. In an effort to increase operating efficiency at Governmental institutions, the Operating Expenditure is increased marginally by 4.1% from RM113.0 billion in 2007 to RM117.6 billion in 2008. The increase is largely to cope with the increase in civil service wages which has resulted in an increase of RM8 billion of operating expenditures a year. However, cost savings expected from the implementation of MENUS which results in more competitive pricing as well as better quality products and services is expected to moderate the impact of the substantial wage increment. Please refer to Annex C for details on the proposed federal government operating expenditure by object.
42. Funds however, will be channelled aggressively into the Government's Development Expenditure to ensure maximum productive returns from the Government's investments. It has increased by RM7.3 billion or 16.4% to RM51.8 billion. Please refer to Annex D for details on the proposed federal government development expenditure by sector.
43. In line with our objective to ensure that revenue from the oil & gas sector is utilised most productively, the Education and Training will be the biggest beneficiaries of the 2008 proposed Budget with an allocation of RM43.3 billion, or 26.3% of Government expenditure. It is also an increase of RM9.9 billion or 29.6% over the previous years' allocation.
44. Other major beneficiaries of the proposed 2008 Government Budget will be in Transportation, which will receive the amount of RM13.5 billion, a RM2.4 billion or a 21.3% increase from the previous year. The health sector will also receive a boost with RM11.3 billion, a RM1.3 billion or 13.3% increase. In addition, albeit small in absolute terms, the Communications sector will receive an allocation of RM883 million, an increase of RM672 million from 2007.
45. The DAP is especially concerned about how the lower income group will cope with rising commodities prices and higher cost of living and RM18 billion will be allocated to subsidies, grants and income supplements. This represents a 51.2% increase from RM11.9 billion in 2007. What will be significant however, is the major change in the delivery of subsidies to the rakyat. For example, the current subsidy system for petrol and diesel more often than not results in a disproportionate amount benefiting the wealthier segments of society. The biggest beneficiaries of petrol subsidy will be those who own multiple cars, particular the fuel guzzling SUV varieties, while those who benefit least will be those who own motorcycles or no motorised vehicles at all.
46. Most importantly, DAP plans to introduce income supplements for the lower income segment of the rakyat to enable many of them to achieve reasonable living standards and save for their future post-retirement. These supplements will be introduced without distorting market

incentives and efficiency mechanism benefiting not just the lower income employees but also their employers. RM9.3 billion has been allocated in 2008 for its pilot implementation.

47. The DAP believes that the Government's attempts to ensure continued price stability via intensified enforcement of essential goods prices "to ensure traders act responsibly and do not increase prices indiscriminately" is doomed to fail due not just to the impracticality of enforcement, but also the injustice towards the small and petty traders. Such measures will discourage these traders from upgrading their services and facilities as they will not be able to justifiably charge a premium to their customers for example, for cleaner toilets or for air-conditioned premises. On the other hand, the inherent contradiction of such a policy exposes itself when no action is taken against mid-market to up-market outfits for charging significantly higher prices for their food, products and services. Such impractical attempts at controlling prices have also resulted in essential item shortages such as cooking oil and sugar, inconveniencing both consumers and sellers.
48. What is more important, without distorting market mechanisms is to raise the minimum income levels of Malaysians such that they will be able to cope with the expected increase in price increases, or unexpected ones such as the global increase in commodity and oil prices.

OBJECTIVE 1: BUILDING NEW CAPACITIES & CAPABILITIES FOR THE FUTURE

OPTIMISING HUMAN CAPITAL

49. The economic contribution from natural resources, especially in oil and gas is expected to decline over the next 20 years as our reserves runs dry. As revenue from oil and gas constitutes more than 40% of the overall Government budget, there is a serious challenge in sourcing alternative sources of revenue to sustain Government expenditure at current levels.
50. The direct source of replacement contribution towards greater economic productivity in the light of the above will be by substantially raising human capital. With the right quality of human capital, many countries around the world which are not as blessed with natural resources have recorded significant growth above and beyond what we have achieved.
51. In light of the above, the DAP will legislate that at least 50% of our windfall revenues from the oil and gas sector shall be allocated to building human capacity, particularly in Education and Training, above and beyond their normal allocation. This will ensure that our windfall revenues will be productively invested in our most important assets, in particular, the young Malaysians.
52. We will give every child access to a first-rate education. In every school, the focus will now be on quality. More teachers will be deployed to ensure that there will be more time to plan for quality and innovation in teaching. Our schools must encourage creation of new ideas and creative thinking via different types of classrooms, different styles and different methods, but all with a strong emphasis in quality.
53. Hence, to build a real world class learning environment for our young Malaysians and students, a sum of RM43.3 billion is allocated for operational and development expenditure, accounting for 26.3% of the overall 2008 Budget.
54. Of this amount RM29.0 billion is allocated for operating expenditure, compared to RM26.4

billion in 2007, while development expenditure will increase most significantly with RM14.3 billion over RM7.9 billion. Based on the level of education, RM9.4 billion is allocated for primary education, RM8.7 billion for secondary education, RM14.1 billion for higher education and RM11.1 billion for training programmes.

Strengthening the Foundation for Education

55. The total student enrolment by 2010 is expected to reach 3.2 million for primary and 2.3 million for secondary schools in accordance to the 9th Malaysia Plan (9MP). To accommodate this increase, the DAP proposes to build an additional 250 schools in 2008. For this, RM1.8 billion is allocated, based on RM720,000 per school.
56. The DAP recognises the multi-racial character of the Malaysian population and in full agreement with the Merdeka social contract where vernacular schools will be granted the freedom to grow and expand. The current Minister of Education, Datuk Seri Hishammuddin Hussein has himself admitted that “people should not regard the various types of schools in the country as a hurdle to be cleared. After all, this is not a zero-sum game because multiculturalism is an added advantage and a strength for the country.”
57. The number of Chinese primary schools have declined from 1,346 in 1970 to 1,291 today, despite the enrolment numbers increased by 44.7% from 439,681 to 636,124. At the same time, Tamil primary schools has been reduced from 657 in 1970 to 523 in 2006 despite a 26.3% increase in the enrolment in Tamil primary schools during the period from 79,278 in 1970 to 100,142 in 2006. Hence, the DAP proposes to build 60 new Chinese primary schools and 15 new Tamil schools in 2008 in an initial phase to cope with the severe overcrowding problems faced in these schools. It is understood that in subsequent years, up to a total of 134 new Chinese primary schools will need to be built to overcome these problems. DAP will continue to review the need to build Chinese and Tamil primary schools in accordance to the demands and needs of Malaysians, as defined by the number of students enrolled in these schools.
58. As of 2006, 10.1% or 767, as well as 1.4% or 28 of our primary and secondary schools respectively are without consistent daily supply of electricity. 20.0% or 1,517 as well as 68 or 3.4% of our primary and secondary schools respectively are operating without public supply of treated water. These schools exist primarily in rural areas and the DAP proposes a special allocation of RM250 million to ensure that they will enjoy these very basic amenities. In particular, this allocation will benefit many such schools in the east Malaysian states of Sabah and Sarawak.
59. One of the critical ingredients in improving our education system is to ensure that we have sufficient teachers of good quality. At the same time provide sufficient incentives to ensure that teachers who perform will have the necessary opportunities to grow in their career. Hence, to attract the right calibre of teachers into the profession, the DAP would like to propose a tiered incentive-based salary revision scheme for teachers ranging from 10% - 25%. This increment is reflected in the increase in operating expenditure for education and training.
60. In addition, a special allocation of RM1 million will be granted to resolve the illiteracy problem in our Malaysian primary schools whereby some 115,000 or 7.7% of students are not able to read, write or count.
61. As part of the programme to eliminate illiteracy by encouraging the reading habit, especially amongst young Malaysians, RM100 book vouchers will be issued to every student in primary

and secondary schools with household income below RM1,000 per month. This programme is expected to cost the Government RM160 million benefiting some 2 million students. This book voucher programme will replace the current RM1,000 tax relief benefit which serves to benefit only those who can already afford to pay taxes and not those who are most in need of assistance to purchase books.

62. To ensure that all Malaysia regardless of their ethnicity will be literate in their mother tongue, the DAP will ensure that the much delayed mother tongue programmes in Malaysian primary schools is kicked off by the end of 2008 at more than 300 national schools.
63. A study will also be conducted to evaluate the discrepancy of standards, if any, between the Sijil Tinggi Pelajaran Malaysia (STPM) and the matriculation courses. Any discrepancy needs to be address not only in terms of equal treatment to all Malaysians but also to address potential issues of the quality of students gaining entry into the tertiary education establishments in Malaysia.

Building World Class Tertiary Institutions

64. The DAP proposes to focus on the quality of the existing tertiary institutions instead of creating new universities for Malaysia. At this point of time, Malaysia has more than double the ratio of university to population compared to countries with better quality education system such as Singapore. As a result, further expansion of tertiary students intake at public universities, expected to reach 294,000 by 2010 will be absorbed into existing universities. To cope with this expansion, an allocation of RM1.2 billion will be provided to upgrade and improve facilities in existing universities.
65. Universiti Sains Malaysia, Universiti Malaya, Universiti Putra Malaysia and Universiti Kebangsaan Malaysia have been granted “research university” status. These leading Malaysian universities will be allocated the amount of RM200 million each to conduct research activities. In addition, to promote the universities' self-sufficiency and fund-raising capabilities, the DAP will propose that for every additional ringgit up to RM200 million which the universities, including all other local public universities are able to raise from the corporate sector or their alumni for research purposes, the Government will back the fund with an additional ringgit.
66. On top of the above, the DAP proposes that university academics and lecturers will have their pay de-linked from the civil service pay scale and structure. For a start, university academics shall enjoy an immediate 20% increase in pay. In addition, allowance for academics critical faculties which competes with the private sector will be raised by 300% from the current levels between RM200 to RM300.
67. A further study will be conducted to revise the remuneration packages for them to ensure that our universities are able to attract the best academics from around the world to teach and research at our universities. Without these global talents, whether Malaysians or foreigners to lead our academia, it will be difficult for our universities to excel in the increasingly globalised and competitive world.
68. To promote quality and competitiveness between the local public universities, for the 2008 university intake, each university will be able to evaluate their selection of students on the basis of the students' own preferences. Only if the students are unable to secure a place based on their preferences, will they be allocated a place by a central clearing agency at the Ministry of Higher Education. This change in university placement will result in greater university autonomy in forming the character as well as managing the quality of their own institutions.

In the longer run, it will result in much higher quality institutions of higher learning.

69. To promote access to university education, in particular, those from poorer financial circumstances, we will ensure that student loans are made available to any and all student who qualifies for tertiary education. However, to ensure efficiency and transparency, as well as to minimise the risk of default, the education loan fund shall be managed and administered by all the local commercial banks in Malaysia at preferred interest rates subsidized by the Government. This move will ensure that all deserving students shall have speedy access to funds, preventing unnecessary anxiety caused by delays. At the same time, it will reduce the administrative cost borne by the Government as well as the high percentage of defaults faced currently due to poor and weak enforcement by Government agencies.

Creating a Skilled Workforce

70. Less than 25% of Malaysians will have the opportunity to pursue tertiary education in universities. However, those who will not qualify for degree education will still have a tremendous amount of economic contribution to the country. Their potential and abilities can be harnessed at polytechnics and community colleges which are largely neglected, in part due to the focus on building new universities. Hence the DAP proposes to allocate RM800 million for the construction and upgrading of polytechnics and community colleges.
71. A strong supporting polytechnic and community college system will ensure that its graduates will be able to secure suitable jobs in the industry and resolves some of the key issues behind the increasing numbers of unemployed university graduates. Trained machinists, technicians, mechanics and other skilled workers will contribute immensely to the country's all-important manufacturing sector. The polytechnics and community colleges will play a larger role in producing competent skilled workers demanded by the industry relative to the universities.

Supporting Lifelong Learning

72. Whether one likes it or otherwise, adult workers today have to keep pace with a constantly changing economy to meet globalised challenges. Lower-skilled workers are especially vulnerable to becoming displaced if they do not upgrade and pick up new skills, not just once but continuously. No matter what useful skills or knowledge we acquire in school and at the tertiary level, they will become less relevant over time.
73. The Government will increase its support for lifelong learning to all Malaysians. We have at this moment the Human Resource Development Fund (HRDF) managed by the Ministry of Human Resource. The current system which we have is employer-centric i.e., all training initiatives is led by the employers. In the event an employer does not proactively seek training opportunities for the employees, the latter will lack the means to pursue training.
74. Hence, the DAP will propose that individuals will be able to apply for subsidised places at accredited training institutions directly. As a result, each Malaysian will hence be able to manage their learning experience in accordance to their own preferences. In addition, the direct application system will reduce the abuse of the current system by employers and training providers by short-changing employees with poor quality training programmes.

Empowering Women

75. In addition to RM100,000 worth of grants provided to Ministries and government

departments to set up childcare centres, the DAP will propose to subsidise the set up of such centres by the private sector. For every child which is enrolled into these centres by female employees, the companies will be able to claim a tax relief of RM2,000 per annum. It is hoped that this step will encourage more childcare centres to be set up in the private sectors, which will in turn encourage greater productivity from female employees who need not sacrifice work to take care of the children.

76. Women will also be entitled to improved maternity leave programmes from the employers and the government. Currently women employees in Malaysia are entitled to 60 days' paid leave. However, according to the International Labour Organisation, Malaysia is one of a group of 20 out of 152 countries providing maternity leave of 60 days or less. This budget will seek to address this shortcoming in phases to achieve the recommended 90 days or 12 weeks paid maternity leave.
 1. For women who has worked at least 180 days with an employer, she will be entitled to an additional 30 days paid maternity leave. The employer will be responsible for 50% of the additional paid leave, while the Government will assist by footing the other 50% of the wage bill.
 2. For women who has worked at least 180 days, but with different employers during the period, she will still be entitled to an additional 15 days paid leave on top of the existing 60 days, financed by the Government.
77. It is hoped that with the new maternity leave scheme, mothers will be able to spend additional time to recuperate and bond with the new baby, to promote a stronger family while at the same time, provide greater incentives for Malaysian women to participate in the workforce. As at 2004, women still represent a huge untapped economic potential as their participation stands at only 45.7% as at 2005. This compares poorly against our neighbours in Singapore (53.9% in 2003) or Thailand (nearly 64.2% in ~2000).
78. Beyond just providing maternity leave and incentives for childcare centres, and other allocations for the Ministry of Women, Family and Community Affairs, it is more important to create a general awareness' and understanding of the problems of women's employment in all the top policy and decision making and executive personnel within the Government. This will require awareness, understanding and action. To do so, the DAP proposes that the Government pursue "Gender Mainstreaming" by setting up Gender Budget cells in each government department or Ministry. The role of these cells, is to ensure that sufficient consideration as well as allocation of expenditure has been catered for Malaysian women and that their needs have not been neglected. Gender equity in participation in decision making will hence be significantly enhanced.
79. In the longer term, a DAP led government will seek the best way to do so is to educate the children, orient the teachers, examine the text books and teaching-aids and ensure that the next generation grows up with new thinking.

Youth & National Unity

80. To encourage healthy activities among our youth, and to encourage further interaction between young Malaysians of different race, religion and background, a special allocation of RM3,000 as opposed to RM300 in the previous year, will be set a side for each school to organise multi-racial and multi-cultural activities for primary school students to take part, in conjunction with other schools. This programme, which will be an extension of the current Student Integration Plan for Unity (RIMUP), will cost approximately RM25 million to manage and administer. This will be on top of the regular allocations towards sports and community

activities in schools, villages and cities.

INVESTING IN RESEARCH AND DEVELOPMENT

81. In order to build up a world class economy, the nation needs to invest in the research and development of core technology and products. This will reduce our reliance on foreign expertise as well as increase the competitiveness of our country. Our expenditure on Research & Development has historically been low, but we hope to boost R & D spending to 2% by 2012, and 3% by 2015 of the country's GDP annually. For the current year, we have allocated RM3.2 billion which represents approximately 0.5% of Malaysia GDP for 2008. In contrast, the Government allocated RM700 million for various biotechnology and ICT funds and projects in the previous year's budget.
82. The reason for the gradual increase in R&D funding is for the simple reason that it will take time to attract and grow the necessary talents to and in Malaysia to lead Malaysia's infant R&D industries. The nation's R&D thrust goes hand-in-hand with our policy in building human capital, for without the necessary levels of skills and intelligence, no amount of money will deliver the necessary results from our R&D ventures.
83. Malaysia's primary focus to date has been to construct buildings and infrastructure but we have often failed miserably in the areas of attracting the right quality of expertise and knowledge. Hence, for our R&D thrust to be successful, Malaysia must also invest not only in producing our own R&D scientists but also attract global R&D experts to pursue their research career in Malaysia. Many of these will be Malaysian researchers currently pursuing their careers overseas. It is only with a sufficient critical mass of top global researchers transplanted to the country, then the R&D movement within Malaysia will blossom. However, this means paying the right amount of money for the right quality of talent to set up their operations in the country.
84. Over the next decade, we expect this critical mass of top-rate researchers in Malaysia, who will create new intellectual property in our research institutes, universities and hospitals, and will bring in new, technology-driven activities which will spin off benefits to the rest of the economy. This way, Malaysia's economy can truly move up the value-chain ahead of the fierce competition from our neighbours such as Vietnam, Thailand and even China.
85. As the areas of research in engineering, biotechnology, ICT as well as other fields is vast and endless, it is also critical that Malaysia's investment is allocated to a smaller area where the likelihood of success is higher, based on our own competitive advantages. Any lack of focus in the areas of research will result in too little money spent on too many projects leading to negligible results. In addition, it is important that we recognise that we will never be able to spend a similar quantum of funds in R&D as compared to highly developed nations.
86. However, the sheer complexity as well as depth of knowledge and experience required to decide on sensible and viable policies render our local governmental agencies highly ill-suited to the task. Hence, the DAP proposes the set up of a Research & Development International Action Team (RADIANT), an executive council of internationally renown academics from the scientific community to steer the R&D direction, innovation and entrepreneurship focus for Malaysia.
87. The allocation of RM3.2 billion shall be distributed to MIMOS, Multimedia Development Corporation (MdeC), public research institutes, universities and hospitals managed by the Ministries of Science & Technology, Higher Education as well as Health. RM500 million shall also be allocated to a newly set up National Research Fund to promote R&D led by foreign

renowned academics and experts.

88. Areas which will benefit from our R&D allocation include our commercial agricultural sectors such as the oil palm industry. With crude oil trading at more than US\$70 per barrel, alternative fuel sources like electricity and bio-diesel are becoming economically competitive. Malaysia stands to benefit from this development as we are the largest producer of palm oil, a bio-product which is readily converted into fuel. Sales of palm oil related products are expected to increase significantly over the next 5 years, with strong demands coming from European and Asian countries, particularly China and India.

FINANCIAL STRENGTH, ECONOMIC RESILIENCE

Maintaining Islamic Finance Leadership

89. As highlighted in the previous years' budget, Malaysia has progressed significantly in the development of Islamic financial services, especially in terms of the size of investments and an increase in the number of institutions. Malaysia was the first to issue a global sukuk in 2002, as well as the first country where supranationals have issued ringgit-denominated Islamic bonds, namely the International Finance Corporation with an issuance of RM500 million and the World Bank, RM2 billion. In 2006, Malaysia was the largest issuer of Islamic bonds in the global capital market, accounting for USD30 billion, which is more than 70% of the overall global issuance of USD41 billion.
90. With the continued growth of importance in Islamic finance, we want to encourage more of this business to come to Malaysia. There is approximately US\$500 billion of funds within the Islamic finance system, growing at around 15% annually. In the Gulf and Asia, Standard & Poor's estimates that 20 per cent of banking customers would now spontaneously choose an Islamic financial product over a conventional one with a similar risk-return profile.
91. However the market's growth in importance has also attracted some of the largest capital markets in the world such as the United Kingdom and Singapore to develop financial services and products to capture this market, which will result in a loss of market share for Malaysia. For example, one of the largest sukuk to date issued by Dubai Ports was written out of the London office of Barclays Capital in January 2006. And in August 2006, the first billion dollar sukuk to be listed on the London Stock Exchange raised £2.5 billion (US\$5 billion). In addition, ambitious plans have been announced to make London the western capital of Islamic finance as the government announced tax relief for sukuk in March this year.
92. Nearer home, Singapore is increasingly serving as a bridge between the Middle East and Asia. More Middle Eastern banks are setting up in Singapore, which is experiencing double-digit growth in funds originating from the Middle East, for investment in Asian capital markets and real estate. Given Singapore's lead in the Over-The-Counter (OTC) derivative market as the fourth-largest foreign exchange trading centre in the world, they will certainly provide stiff competition for Malaysia.
93. Hence, it is proposed that a joint working committee be set up by the Malaysia International Islamic Finance Centre (MIIFC) top officials from the key relevant Ministries, Government departments and agencies, financial and market regulators and representatives from the banking and takaful sectors. The main objective of this committee, shall be to help member companies of both organizations to establish key contacts and to find potential partners and clients.
94. As the practice of Islamic corporate securitisation increases, so must there be a corresponding

improvement in trade and liquidity. While Malaysian Islamic banks have brought together a sizeable amount of financial deals based on Islamic instruments, the lack of liquidity and trade of these tools on a exchange will result in loss of deals in the future as clients move to markets which provides exchange liquidity, such as the London Stock Exchange. A committee comprising of investment bankers, BNM, Bursa Malaysia, Securities Commission and key broking institution discussing financial mechanism for increasing liquidity and trade of the financial instrument.

95. With greater global acceptance and maturity of Islamic financial instruments, it now becomes critical for Malaysian Islamic financial institutions to expand their business to global cities which attracts the greatest amount of financial deals. Of greatest importance is for Malaysia to make its presence felt in New York, London and Hong Kong, for otherwise, we will be destined to lose out to other financial institutions set up in these cities. Therefore, the DAP proposes that Malaysian Islamic banks and other related institutions be granted a double tax deduction on expenses incurred for setting up and promoting their operations in foreign financial districts.

Liberalisation, Competition & Growth of Financial Services

96. In part to reduce our extraordinarily high dependence on commodities and in the face of strong competitive pressures in the manufacturing sector from lower cost developing countries, it is highly important that we develop an advanced and mature financial services sector to move Malaysia up the value chain. A successful development of the Malaysian financial services sector will certainly compensate for losses in revenue due to decline in commodity prices or the depletion of natural resources in the future. Unlike commodities and natural resources, the sector is dependent only on a pro-active and accommodating government as well as its human resources to create value for the economy. The two key complementary pillars of a sound and forward-looking financial institutions as well as a broad and deep capital market are necessary to create a vibrant and dynamic Malaysian financial hub for the region.

Commercial Banking

97. In the light of globalisation, it has become imperative that Malaysia continues to liberalise, progressively but decisively, the financial services sector in order to regain Malaysia's position as a leading country in Asia Pacific for the sector. Ultimately, we want to establish a vibrant and dynamic global financial hub.
98. After the state enforced mergers and acquisitions in the banking system in the late 1990s which reduced the number of local commercial banks to 10 anchor banks. Despite a host of incentives, only in the current year when CIMB Bank conducted a hostile acquisition of Southern Bank did the number of anchor banks reduce by one to 9 units. However, in order for our local banks to meet the competition head on in the light of globalisation, it has become critical that the number of banks be reduced to not more than 6 banks.
99. The DAP proposes that such an exercise should not be forcibly planned and outlined by the Government or Bank Negara Malaysia but instead be a function of market forces to ensure both efficiency and equity. The typical Malaysian banker however, feels very comfortable about things especially in the light of ample liquidity in the system as well as an upswing in the stock market.
100. Hence the best way to inject a sense of urgency into the banking sector on continued

consolidation, accelerated innovation and improved efficiency is to liberalise and introduce competition into the sector. It is necessary for bankers to be aware that even if they are not immediately threatened, they will be unless they act soon. At the same time, the Government will continue to encourage and assist our banks to restructure and prepare themselves for greater competition from foreign banks.

Capital Markets

101. While our stock and debt markets have performed credibly in the past year, it has not outperformed the bourses in the region, including Singapore and Hong Kong. It is critical that we acknowledge that our domestic markets alone will not sustain the depth, breadth and resilience needed by liquid capital markets. In fact, in terms of market capitalisation, Malaysia has declined substantially since the hey days of 1996 when we were ranked 2nd in the Asia-Pacific ex-Japan, and has since dropped in terms of ranking to a dismal 10th today.
102. It is thus critical for us to develop the equity and debt markets to help service Asian needs, and be linked up with global markets. We need to build up a critical mass of players and activity in our capital markets and to do that we must provide incentives and a conducive environment for foreign fund managers to carry out their transactions in Malaysia. Refining the rules, developing liquid capital markets and promoting the asset management industry will provide the basis for attracting this critical mass.
103. As one of the key policies, the Malaysian capital and foreign exchange controls will be further liberalised to remove obstacles from attracting and retaining foreign funds and investments. A more progressive and vibrant environment will enable foreign companies to list on Bursa Malaysia, or to issue bonds in the country. To do that Malaysia must prove that we possess the necessary competitive advantages in the region. These companies would want to raise capital at the lowest cost, and find liquidity and support for their securities in the secondary market.
104. Hence there must be 2 set of reforms. Firstly, reforms must remove non-financial and performance related conditions such as the 30% bumiputera equity requirement for listing on Bursa Malaysia. Few globally successful foreign companies will subject themselves to this tenuous condition in the light of competition from other countries which do not impose such restrictions. The government will then lead Bursa Malaysia to promote its bourse in the regional developing markets to encourage high quality companies to list themselves in Bursa. Only with a greater and more diverse portfolio of quality companies, will foreign investors be more attracted to the bourse.
105. Secondly, reforms are required to incentivise more asset and fund managers to locate their investment in Malaysia. Only a successful implementation of such a strategy will globally successful regional companies display a keen interest in listing on Bursa Malaysia. To this end, it is proposed that the Government will implement a new scheme to grant tax exemption to a fund approved by Bank Negara Malaysia over the next 5 years, for specific income from approved investments for the life of the fund. In addition, it is proposed that investment banks be qualified for a 10% income tax rate for fees derived from providing investment advisory services to foreign investors or funds. This incentive should encourage more local financial advisors to seek and attract foreign funds to complete their capital and debt market requirements in Malaysia.

Harnessing Talent in the Financial Services Sector

106. The financial industry is a global industry driven by technology, innovation and competition.

The pace of change is unrelenting. What is most critical to the industry is not just attractive financial incentives and progressive financial reforms. Instead, what the industry lacks critically today is insufficient and dwindling talent.

107. It is a well known fact that in the past 12 months, the number of professionals in the financial services industry that has been headhunted to the other more advanced capital and debt markets such as Hong Kong and Singapore have increased manifold. In order for Malaysia to even keep abreast of the financial developments and challenges in the region and the world, Malaysia must have a pool of highly skilled professionals who are at the forefront of their respective specialist areas. Therefore, it is imperative for the country to enhance our own local financial sector talent and redouble our efforts to attract and retain top international financial talent into the country.
108. As part of the plan to encourage greater interests in the financial services sector, the DAP will urge our local commercial and investment banks to offer bonded scholarships to top Malaysian students to pursue degree programmes at the top universities in the United Kingdom and the United States, home of the world's largest financial districts. To encourage these crucial long term moves, it is proposed that the Government will match the scholarship funds raised by the financial institutions on a RM1 to RM1 basis.
109. It is also proposed that the Government offers up to 10 scholarships a year for students contemplating postgraduate programmes in economics, financial engineering and other related courses to create "rocket scientists" in the financial services industry with the only condition being their return to the country to contribute to the financial services sector. These scholarships shall only granted to programmes conducted in the top 10 global universities of the respective fields, which will likely cost us up to RM1.5 million per annum. At the same time, up to 50 RM8,000 fee-grants shall be awarded to students seeking to pursue these courses in local universities per annum.
110. Local universities and colleges shall also be encourage to devise degree and postgraduate programmes which are not only more relevant to the fast changing financial services sector, but also improve the rigour of their courses. As experts in these fields are difficult to attract to our local academia, often due to obscene differential between the income of a practitioner and an academic, a supplementary grant fund shall be established to reduce the differential to ensure that our students will receive adequate and quality training, teaching and mentorship from successful practitioners.
111. The above measures should hopefully assist Malaysia in building up a critical pool of specialists proficient in sophisticated financial instruments such as financial modelling, structured derivatives, quantitative research methods, risk management and specialised insurance activities. At the same time, other related ancillary services such as legal support and financial advisory work will require the necessary support to ensure that Malaysia remain relevant in the rapidly changing industry.
112. In the short to medium term however, it is critical for local financial firms to increase their efforts to retain both young and experienced talent in Malaysia or all the Government's efforts in developing and strengthening the financial services industry will be wasted. In addition, it is important for Malaysian firms to scour globally for talent to lead our financial services industry. Just as how Hong Kong and Singapore are developing their highly successful and respected markets, we expect an infusion of foreign talent in this sector will lead to greater cross-fertilization of ideas and increased innovation amongst industry players. This will not only provide the cutting edge for our competitiveness, but also possibly assist in retaining our own local talent from moving on to greener pastures.

ROBUST LEGAL FRAMEWORK , ECONOMIC EFFICIENCY

113. As part of our budget to significant shift our economy to the next gear, our economic policies and reform must also be accompanied by significant reforms in our judicial system to ensure that foreign investors will have the necessary confidence in not just justice meted out but also the speed and efficiency at which disputes can be resolved. Our judiciary system today leaves much to be desired. There are thousands of cases in backlog, and often it takes more than five years before commercial disputes are even brought to court for trial at the High Courts. Such inefficiency certainly benefits and incentivises the culprits and penalising the victims. What certainly wrecks the confidence in our legal system is when a 19-year old, Lee Kwong Yong was jailed for 6 months while awaiting justice for being unable to produce his identity card when caught by the police. The injustice would have been worse had it not been for a good Samaritan who chanced upon his case.
114. The DAP recommends that the Government do more to attract more experience legal practitioners as well as industry specialists into the judicial profession to resolve the twin problems facing the Courts, a shortage of judges as well as a lack of professionals to manage the mounting backlog of cases. It is understood however that there is a substantial disparity in income between the legal practitioners and judicial officers, making the latter profession unattractive to many. In addition, the disparity creates a natural misallocation of resources as the top quality legally trained graduates will certainly prefer a career in the private sector instead of serving under the judicial system.
115. Therefore, it is proposed that the remuneration of judicial officers be reviewed to match their peers in the private sector. In addition, experienced professionals which are recruited into judicial service shall be remuneration at the same or near their last drawn wages. Whilst this may involve substantial cost for the Government, its returns via a more professional, enlightened and efficient legal system will be immeasurable from both an economic and social perspective.
116. To assist in resolving the delays in producing legal judgements for cases which has been concluded, judges who are currently highly dependent on the assistant registrars to assist them, will be provided with legally-trained research assistants. High Court judges will be provided with 1 research assistant while judges in the Court of Appeal and Federal Courts will be provided with 2 research assistants each.
117. The proposed changes above will only be most effective it is matched with improved performances from the respective judges. To monitor the performance of judges and judicial commissioners, an Independent Judicial Commission will be established. Recognising the importance of such an commission independent of the executive branch of the Government, the British government has enacted a law setting up a Judicial Commission with plenary powers to appoint Judges in the higher judiciary in England. This commission will most certainly remove the mystery that surrounds the current appointment and promotion system. In particular there would be clear guidelines and greater transparency, which eliminates the potential for abuse when such powers are rested on the shoulders of a single person, particularly when vested interests may be involved.
118. It is understood that while there exist a legal aid bureau under the Prime Minister's Office, there is a severe lack of available lawyers to assist with the numerous cases which arise on a daily basis. To prevent cases such as Lee Kwong Yong from recurring in our legal system, it will be proposed that the Government will set aside an initial juvenile legal aid fund of RM10 million to provide ensure that young Malaysians will be able to secure legal representation. Lawyers who volunteer in juvenile cases will hence be paid a fee for their time and expenses. It is hoped that this move will clear the backlog of juvenile cases in the current legal system and prevent such injustices from occurring in the future.

**ENHANCING OUR ECONOMIC INFRASTRUCTURE:
BRIDGING CONNECTIVITY, BOOSTING PRODUCTIVITY**

119. The ability of our transport infrastructure to support massive movements of goods, services and people at a minimal cost is crucial in sustaining Malaysia's productivity and competitiveness. There are many examples of which great empires and cities that have been founded upon their ability to transport goods and services efficiently to the intended markets. One such example was the port of Melaka in the 15th century. It was considered by historians to be one of the world's richest trading at the time.
120. Malaysia is rapidly running out of space in the urban centres to build new roads and parking bays to cope with the rapidly increasing vehicles on the roads. In the first half of 2006, there are 27 million more vehicles using the tolled highways, bringing the total to 545.1 million vehicles, up by 5.2% from 518.1 million in the same period the year before. Malaysia also has one of the highest per capita car ownership ratio in the world at 67% behind only New Zealand, South Korea and Australia.
121. This has to a large part been caused by the lack of efficient public transport alternatives in urban centres to cope with the accelerating demand. During the same period, the number of riders on the urban rail services increased by only 3 million or 3.9%, from 76.4 million to 79.4 million. This number would have been larger if the network had expanded at a faster rate.
122. These trends are expected to continue well into the future and our transport infrastructures, especially those in the major urban areas, are already showing signs of severe congestion and unreliability. To ensure the viability of our networks, investments in transport infrastructure would need to be increased in line with the increasing demand. In view of this, DAP intends to allocate a total of RM13.6 billion to improve the quality of the nation's transport infrastructure, an increase of 21.3% or RM2.4 billion from 2006. The bulk of the increase is allocated to development expenditure for transportation, which increased from RM7.3 billion to RM9.5 billion.
123. Key attention will be paid to the country's most notorious cities in terms of traffic congestion, particularly in the many suburbs of the Klang Valley such as Jalan Kelang Lama - Puchong, Cheras-Kajang Corridor and the KL-PJ-Damansara Corridor, in Penang as well as in Johor Bahru. Expansion to existing rail networks as well as new networks of light rail transportation system shall be conducted aggressively.
124. The DAP will also commence feasibility studies to improve inter-suburban connectivity via the rail transport system, which will by-pass the city centre and hence further reduce congestion in Kuala Lumpur. The "Circle" LRT line will seek to connect Petaling Jaya, Puchong, Sri Petaling, Cheras, Ampang, Setapak, Gombak, Sentul and Kepong suburbs.
125. Urgent studies should also be conducted on the lack of connectivity between the disparate rails systems in the Klang Valley, particularly between Komuter, STAR-LRT, PUTRA as well as the KL Monorail. The Klang Valley rail network should cope with double our current rail users at approximately 160 million users by 2012.
126. Focus shall also be given to an efficient bus transportation system in secondary cities to check the rapid rate of vehicle growth and ensure that they do not suffer the same fate as the larger cities today. These cities will include Ipoh, Seremban and Melaka. DAP intends to achieve the 15:15 objective, whereby a person would need to walk no more than 15 minutes to the nearest bus stop. She too, only needs to wait no more than 15 minutes for a bus.

Elderly and Accessible Public Transportation System

127. By 2050, nearly 1 in 5 Malaysians will be aged 60 and above. In anticipation of the expected increase in our elderly population, and to meet the needs of the disabled population, our transport system has to evolve to meet the needs of the people. Specifically, our initiatives to meet these needs include:
128. All existing LRT stations will be fitted with barrier-free facilities such as tactile guides and lifts to make them more accessible by 2009.
129. The Ministry of Transport will work with all bus operators in the major and secondary cities to bring in low-floor step-free buses from 2008 over the next 10 years. We anticipate 25% of buses will be wheelchair accessible by 2010 via gradual replacement and expansion. All transportation hubs are also expected to install disabled friendly toilets for their convenience. In addition, all new buses serving the Klang Valley, Penang as well as Johor Bahru would have to incorporate ramps to enable wheelchair access. With the successful implementation of the programme, the policy shall be extended to other secondary cities in the future.
130. In addition, guidelines will also be drawn up to ensure that the above measure are complemented with accessible bus stops. As such, all pathways leading to bus stops including walkways and pedestrian crossings. This will ensure that our cities take into consideration the needs of the elderly and the disabled to ensure that they remain integrated into society.

Towards a More Equitable Highway Toll System

131. In January this year, the Government raised the toll fare for 5 privatised highways in the Klang Valley. The Bentong and Gombak toll on the Karak Highway was raised by 20% and 25% respectively. The 3 KESAS Highway toll was raised by 47%, while the Batu 9 and Batu 11 toll along the Grand Saga Highway was raised by 43% and 50% respectively. The highest increment however, was at the tolls along the Lebuhraya Damansara-Puchong (LDP), by 60%.
132. These 5 highways were constructed at a cost of RM4.13 billion. The toll rates have been raised excessively despite the fact that the Government has paid RM2.28 billion in compensation to date, as well as an additional RM2.59 billion over the next 5 years, or a combined total of RM4.86 billion. The compensation promised to date has already exceeded the construction cost of the highways by 18% or RM734 million.
133. As a further example, the total capital cost of construction of the LDP is estimated at RM1.327 billion inclusive of capitalised interest of RM142.3 million. However, the projected profit after tax (PAT) over 30 year concession period has been estimated at RM18.865 billion based on the agreement with the Barisan Nasional-led Government. The projected profit represents a 1,400% return on capital, which is excessive by any reasonable standards.
134. With the impending increase in toll rates for the North-South Highway, and in the light of the clear cut inequity in the concessionaire agreements, as well as in the overwhelming interest of the Malaysian public, the DAP will propose to renegotiate all toll concessionaire contracts for Malaysian highways. It shall be proposed that the toll rates shall be decided in an open and transparent formula which takes into consideration a reasonable rate of return commensurate with the risk undertaken by the concessionaire. If for example, the traffic volume has been guaranteed by the Government, then clearly, there is little risk in the venture.

135. Future increase in toll rates shall in turn, be decided via a open, verifiable and transparent formula which takes into account inflation rates, global cost of building materials, traffic volume, maintenance as well as the operating efficiency of the toll companies. By using this formula, toll rate increases shall not be decided in an arbitrary manner by either the Government or the concessionaire, which often results in failure to take into account of public interests.
136. In the event that no amicable settlement can be arrived at with the toll concessionaires by June 2008, it will be proposed that the Government acquire the toll and highway assets of the concessionaires at a small premium to their book values.
137. Renegotiation of contracts or acquisition of assets is not unique in either the developing or developed world when conducted to serve overwhelming public interest. Just a month ago, the Irish Government has announced plans to acquire the copper network infrastructure from Eircom, Ireland's largest telecommunication provider. In 1983, the Spanish Government went to the extent of expropriating *Rumasa*, owned by Jose Maria Ruiz Mateos, which owned 700 businesses with 65,000 employees.
138. The Indian Government has been acquiring private banks as late as 1980 which gave the Government 91% control of the banking sector. Both Venezuela and Bolivia has successfully taken concrete steps to regain control of their country's natural resources such as oil & gas, as well as other minerals this year with most exploration and mining companies agreeing to renegotiated terms.
139. Should the highway assets be acquired, private companies shall be invited to an open, transparent and competitive tender to manage and maintain these highways. Profits to the Government arising from the operations of these highways shall be designated to Fund for Malaysian Public Transportation System or Dana Sistem Pengangkutan Awam Malaysia (DASPAM). This fund shall be managed by a Public Transportation Council, represented by the Government, the industry and the civil society to monitor the cost, efficiency and effectiveness of our public transportation system.

CATALYSING INNOVATION & BREAKTHROUGH PRODUCTIVITY

140. The adoption of information and communications technology (ICT) serves as a foundation for higher productivity growth across all sectors of the economy. Achieving a high-income status for the country involves a shift in the structural attributes of the economy, from a commodity-based economy to one that is knowledge-based and dependent upon high value added services.
141. DAP recognizes that the transition to a digital society is imminent and future productivity growth would increasingly be dependent upon ICT. Many aspects of the economy will be increasingly reliant on ICT to boost productivity and innovation, and hence widespread access to broadband is becoming a central factor in ensuring creativity and opportunity for all Malaysians.
142. Nations like South Korea, Japan, Singapore and Canada that have achieved enormous success in the ICT industry demonstrated the benefits of a long-term involvement by honest and technologically sophisticated government officials that value the stakes involved and strive to establish a transparent, efficient, flexible and positive business environment.

National Broadband Plan

143. DAP intends to increase the broadband penetration rate among the population. Based on statistics made available by the Minister of Energy, Water and Communication as at 2006, broadband penetration rates for Malaysia is less than 3%, compared to more than 60% for South Koreans.
144. The BN Government's National Broadband Plan target of 25% household penetration by 2006 and 50% by 2008, has clearly failed miserably. The DAP however seeks to reinvigorate the National Broadband Plan by achieving the 25% target by 2010 and 50% by 2015.
145. In the larger national interest of achieving the above targets, and its importance towards building a generation of enterprising and innovative Malaysians, DAP proposes that the broadband market be liberalised to allow for foreign competition.
146. To promote the building of high quality and reliable broadband network, DAP proposes favourable tax treatment for telecommunication firms undertaking broadband investments:
 - New broadband operators are allowed to deduct financing costs from their taxable income.
 - Investors are exempted from paying taxes on interest income from bonds specifically ear-marked to finance these investments.
 - Exemption from import duties for specific state of the art telecommunications equipment required for broadband infrastructures.
147. In addition, DAP also proposes direct grants to fund, valid for new connections signed up before 31st December 2008:
 - The cost of installation of the broadband connection between the business premises and the appropriate exchange for the amount not exceeding RM100 per connection.
 - First-time installation charges for connection to broadband services faced by all new residential subscribers for the amount not exceeding RM50 per connection per household.
 - First-time installation charges not exceeding RM100 per connection and monthly charges not exceeding RM50 per month, for broadband services faced by registered charitable organizations and community centres.
148. DAP recognises that the lack of competition in the broadband industry creates disincentives for businesses and consumers to adopt ICT. A monopoly telecommunication service provider would be induced to charge a higher price at all levels of service quality than in an otherwise competitive environment, thus slowing broadband adoption in the economy.
149. Hence, fiscal transfer schemes via favorable tax treatment on telecommunication companies and grants cannot serve as catalysts for ICT development by themselves. The National Broadband Policy needs to promote both facilities-based and intra-platform competition.
150. Facilities-based competition, or inter-platform competition, would bring about competition between providers of the same or similar services, but where the services are delivered via different or proprietary means or networks. For instance, a new cable TV network may compete with a BPL (broadband over power lines) to provide broadband services.

151. Intra-platform competition requires the incumbent telecommunication monopoly to share their physical network with other broadband ISPs, who may wish to access the facilities of the incumbent telecommunications provider. This will prevent duplication of network infrastructure as well as eliminate the natural barrier to competition in the industry.
152. While the current limited local loop unbundling (LLU) policy in place already permit such sharing of facilities, it is understood based on the feedback from the industry that the incumbent monopoly still possesses undue influence over LLU and hence retarding the liberalisation of the broadband sector.
153. Therefore, the industry regulator, Malaysian Communications and Multimedia Commission (MCMC) shall be given more enforcement powers to prevent anti-competitive and negative collusion behaviour by incumbent telecommunication companies. Heavier penalties shall be imposed, particularly for price and non-price anti-competitive behaviours such as delays in processing of applications, unreasonable terms and conditions as well as other forms of anti-competitive manipulations.

Stimulus for Local MSC Companies

154. To promote the growth of ICT industry in Malaysia, as well as the success of the Multimedia Super Corridor (MSC) which was initiated in 1996, all MSC status companies shall be immediately qualified to bid and tender for all Government-related ICT projects. In the past, only companies registered and approved by the Ministry of Finance are qualified to tender for these projects.
155. By allowing additional competition in the provision of services to the Government, the Government can expect additional savings in terms of cost of implementing ICT projects as well as an increase in quality of services provided. At the same time, it will serve as a timely boost to MSC-status companies, particularly local ones with the expanded market as the Government represents one of the largest consumers of ICT products and services in the country. The stronger domestic presence of the MSC-status companies shall result in improved ability and credibility for these companies to compete in overseas markets.
156. In addition, as the entire concept of ICT is based on its ability to transcend physical boundaries, particularly with the advent of broadband and mobile technologies, the geographical requirements for MSC-Status companies to be located at specific sites shall be phased out accordingly. This requirement has been most heavily criticised by those employed in the industry, and the DAP is receptive to the voice of those affected by the current policies. Without geographical limitations, we expect Malaysian MSC-Status companies to continue to grow exponentially in terms of numbers and profitability, as their ability to service customers, attract global top talents as well as reduce operating cost will be enhanced substantially.

Increasing computer ownership

157. Household computer ownership in Malaysia continues to remain low at 21.9%. In order expedite the increase computer literacy as well as ownership, particularly among the lower income group who currently don't pay any taxes, all Malaysians above the age of 21 shall be entitled to computer purchase vouchers based on their income levels. Those with income RM1,200 and below per month shall be entitled to RM200, while those with income above RM1,200 and below RM2,500 will be entitled to RM100. Assuming a 10% take-up rate by those who are eligible, this exercise will cost the Government approximately, RM300 million.

158. To encourage the use of internet technology in Malaysia, DAP proposes to allocate RM250 million for a nationwide WiFi plan to create ease of connectivity to promote learning and innovation. The project will pilot in Klang Valley, Penang and Johor Bahru for 2008 and for all other secondary cities in Malaysia by 2010.
159. At the same time, the current RM3,000 tax relief policy for computers purchased every 3 years shall be abolished as it benefits wealthier Malaysians disproportionately, and does not benefit lower income groups who do not have to pay taxes.

Promoting Innovation & Entrepreneurship

160. To encourage a healthy development of innovation and entrepreneurship in Malaysia, particularly in the ICT sectors, the DAP shall propose that a RM250 million fund be set aside to act as seed funding for these new enterprises. However, unlike the earlier schemes such as the MSC Venture Capital as well as the CRADLE seed funding programme, this new fund shall be driven by the private sector.
161. One of the key weaknesses in investments made by the Government is often the lack of knowledge in the specific subject matter as well as the industry's market, resulting often in poor evaluation and management. In addition, the Government does not possess a large pool of experienced mentors to provide the necessary guidance to these seed companies.
162. It is hence proposed that the new fund – STARTUP shall be a matching investment scheme whereby for every RM1 a private investor puts into the business, STARTUP shall invest RM1. The maximum investment by STARTUP shall be RM250,000 and the minimum shall be RM50,000. The target recipients of this funding shall be Malaysian companies involved in developing new or better products, processes and applications. These companies must be private limited companies incorporated for less than 3 years in Malaysia and have paid up capital not in excess of RM500,000 with core activities carried out in the country.
163. To encourage private sector participation in the innovative industries, losses incurred by such investments shall be tax deductible in the investing individual or company's income tax. A startup's ability to secure private investment will hence become a critical criteria in securing funding from STARTUP while at the same time relieving the onus of investment viability from the Government.

ENERGY & ENVIRONMENT FOR THE FUTURE

Energy Supply & Distribution

164. The Energy sector is fraught with multiple challenges both upstream production and downstream distribution problems, both globally as well as locally. Hence it is critical that the Budget put in place critical measures to ensure that we have a sustainable energy policy into the future not just in terms price, but also in terms of environmental-friendliness to ensure that future generations of Malaysians will enjoy not only affordable electricity and energy sources, but also a clean and unpolluted surroundings to live in.
165. Currently more than 35% of the electricity generating capacity is in the hands of the Independent Power Producers (IPPs), which produces electricity to be sold to Tenaga Nasional (TNB) which will in turn transmit electricity to the respective business premises and households. However, based on current arrangements, the Government and TNB have virtually guaranteed the IPPs extraordinary profits regardless of cost and productivity gains.

Studies have shown that the IPPs which are shielded from financial risks earn an average of 18-25% rate of return on capital, and some as high as 40%. In addition, TNB is also required to pay for as much as 40% excess, often wasted, capacity for electricity generation. This arrangement places significant stress on both the consumers who will face the brunt of price increases, which will consequently place pressure on the rate of inflation, as well as the Government who is forced to increase its subsidy for natural gas supplied to the IPPs, in the light of the significant price increase of oil and gas globally.

166. Petronas has provided more than RM25 billion in gas subsidies since 1997 to financial year 2006, of which RM14 billion or 55% went to the IPPs, whilst the remaining RM 11 billion went to TNB. For the financial year ended March 31, 2007 alone, Petronas provided TNB with RM 5 billion in gas subsidies and IPPs RM 6.7 billion, amounting to a total of RM 11.7 billion.
167. It is therefore critical that in the interest of the public, that these contracts with the IPPs which lasts for up to 20 years each, be renegotiated within the next 6 months. Gas subsidies to the profit-making IPPs must also be terminated. In the event that a amicable new contract fails to be renegotiated, the Government will then exercise the option of acquiring the assets of the IPPs. The management of these IPPs will then be outsourced via an open, transparent and competitive tender. All future IPPs to be set up in the country shall not be via direct negotiations which have clearly proven its ineffectiveness, but instead via open, transparent and competitive tenders.
168. One of the key problems the Government, the energy producers as well as the business and household consumers, is the arbitrary nature in which the prices are set at the whims and fancies of the Malaysian cabinet. This results in great uncertainty for all parties. For the energy suppliers, without predictability in prices, they will not be able to make sound investment decisions, which may result in under-investment. At the same time, factories and businesses will suffer from unpredictable cost of operations.
169. Therefore, to allow for an element of predictability in price changes, it is proposed that the prices for electricity both from the IPPs to TNB, and from TNB to the consumers be regulated with the globally accepted "RPI-X" formula which will be modified in accordance to the local markets and competitive forces. This formula will ensure that price increases will be capped to a function two key indicators:
 1. The prices of raw materials and overall inflation rate, as well as
 2. Expected productivity improvements in the energy industry.
170. Based on the formula, these energy suppliers will not be allowed to exercise monopolistic pricing which is detrimental to the interest of the public, but at the same time will have a strong incentive to improve productivity and efficiency higher than the expected productivity improvements to increase profitability. Where the Government has provided additional subsidies, such as the gas subsidies offered by Petronas to TNB, such subsidies must therefore be reflected in the price to the consumers.
171. The DAP will also set up an independent regulatory body, Office of Energy Markets (OEM) to oversee the renegotiation of the IPP contracts, the set up of new IPPs, monitoring of compliance to the set pricing formulas as well as to prevent predatory monopolistic practices.

Internalising External Costs of the Environment

172. In our eagerness to pursue profits and development, we have often failed to take into consideration the impact of economic development on the environment, and how the latter affects our health and lifestyles. As an example, expatriates in Hong Kong are leaving the city at an increasing rate due to high levels of pollution. An AC Nielson survey conducted in 2006 found that 55% of the respondents knew of professionals declining to come to Hong Kong, while 78% knew of those who were thinking of leaving, because of the quality of the environment. In addition, 59% claimed that their company was likely to invest money elsewhere instead of Hong Kong, if the current pollution trend keeps up. On the other hand, Singapore is said to have attracted at least a third of the departing expatriates from Hong Kong due to its clean air and environment. It is therefore important for Malaysia, in our pursuit to attract and retain human capital, to provide Malaysians with a clean and green environment as well as to meet the future challenges of global warming, that we internalise the external cost of development on the environment.
173. As part of the core schemes to be put in place to take into account the cost of actions on the environment, our tax regime will be adjusted to take into account “Green Taxes”, also known as eco-taxes. These taxes will be revenue neutral for the Government for the imposition of green taxes will be offset by reduction in income taxes, maintaining the necessary progressivity in our taxation system. Some of the key policy thrusts are listed here, while others will be highlighted in the “Revenues for the Future” section.
174. Green taxes are levied on resource use or polluting environmental emissions. And for maximum effectiveness, they should be levied as close to the resource use/emissions as possible (e.g. SO₂/CO₂ not energy). The Green tax has been successfully implemented in European countries such as Sweden, Denmark, Germany and the UK without adverse consequences. It is hence proposed that a “carbon tax” be implemented commencing 2010 to allow for adjustments to consumption and production of energy. Subject to further studies and adjustments, the proposed a carbon tax will set an emissions price of RM25 per tonne of CO₂-equivalent. It will be applied across most economic sectors though with an exemption for methane emissions from the agricultural sector and provisions for special exemptions from carbon intensive businesses if they adopted world's-best-practice standards of emissions.
175. At the same time, companies who took initiatives in the R&D, technologies innovation to reduce pollution and waste will be granted double tax deduction relief for their contribution to environmental friendliness. Other incentives will include stamp duty exemptions for new “carbon-neutral” houses and properties based on globally accepted standards. A tax relief of RM3,000 shall also be granted to those who install approved solar-powered panel for their households to generate electricity.
176. Studies have shown that the temperature at Fraser's Hill, Genting and Cameron Highlands Fraser Hill has risen between 2-3°C in the last 25 years due to the clearing of forests and over-development. We are also facing changing ecological challenges and a loss in bio-diversity in these areas. These will result in negative impacts to both our environment as well as our tourism industry in the longer term. Hence we need to be committed to effective sustainable forestry. To ensure that replanting is carried out in logged areas, we will work closely with international environmental groups and the local community. RM20 million will be allocated to finance the reforestation programmes in East and West Malaysia.
177. In the light of severe over logging in our forest reserves, the DAP proposes that a severance tax of 5% be imposed on the extraction and sale of mineral and forestry products in the country. In addition, there is the need for an honest and credible system for identifying well-managed forests as acceptable sources of forest products. In order to promote responsible management of the forest, industries involved in utilising forest resources such as logging companies and

downstream timber industries who secures certification from The Forest Stewardship Council (FSC) accredited certification bodies will be given the severance tax exemption.

178. RM500 million will also be specifically allocated for flood mitigation programmes in Johor to ensure that the natural disaster which occurred in the state in December and January last year causing hundreds of millions of ringgit in damage will not be repeated. An additional RM500 million shall be allocated to alleviate the condition of other flood prone areas in Malaysia.
179. To ensure that environmental responsibility is not placed solely on the Government, civil society groups are also strongly encouraged to commence environmental programmes. The DAP will set up an "Environment Action Initiative Fund" of RM100 million to be disburse over a period of 5 years for local environmental groups and societies to undertake environmental conservation and recycling projects, educational, awareness and R&D programmes.

MODERNISING AND REVITALIZING THE RURAL & AGRICULTURE SECTOR

180. With a declining supply of arable land as well as reduced labour in the sector, future agricultural output increases and development will have to emanate from gains in productivity. To achieve gains in productivity and efficiency especially in the rural areas, DAP has proposed an increased allocation to RM6.76 billion to the agriculture and rural development, an increase of 6.9% over the 2006 Budget.
181. A 2003 United Nations Development Program (UNDP) report stated that Malaysia's agricultural sector overwhelmingly consists of small and medium-sized enterprises (SME). 99.2 percent of the total agricultural establishments covered in the survey were SMEs. They employed 57.5 percent of total workers in the sector and contributed 42.1 percent (RM 8.7 billion) to the total agricultural output. Of the total 66,200 number of workers employed by SMEs in the sector, only 41.1 percent of them works full time and have a significant part of their income derived from off-farm activities. Qualification wise, only 1.1% of those who worked in SMEs hold university degrees, with large establishments faring slightly better at 1.3%.
182. In addition, research has shown that employment within certain segments of the agricultural industry is dwindling at a rapid rate. For example, there were 1.5 million rice farmers in 1995; by 2010, the number was expected have fallen to 980,000. Between 1999 and 2005 alone, the number of rice farmers dropped from 296,000 to 155,961, implying a fall of 47 percent.
183. Hence, there is a case to intensify the training and development of agriculturalists in Malaysia, especially those who are classified as small holders. Often, small and medium producers are the ones who are most vulnerable to the uncertainties of the agricultural sector; they lack the knowledge and resources to reallocate their productive capacities into more profitable crops. The education and training programs would not just concentrate on the application of technologies that would improve agricultural output, but also to enable farmers to venture into downstream agricultural activities and to better prepare them for life in different sectors of the economy that could generate higher income. RM20 million has been allocated to carry out these rural and agricultural education programmes.
184. In addition, DAP will launch a new agricultural and cottage industry RM50 million loan fund specifically targeting womenfolk in the rural areas. Women are often responsible for the upbringing of the world's children and the poverty of the women generally results in the physical and social underdevelopment of their children. Global experience has shown that women are a good credit risk, and that women invest their income toward the well being of their families. At the same time, women themselves will benefit from the higher social status

they achieve within the home when they are able to provide income. It will also enable women in rural areas to contribute directly towards the economic development of the nation. This fund shall be administered by Bank Pertanian Malaysia.

185. DAP would continue to assess the range of possible policy and incentive options to tackle issues concerning agriculture production, which includes the issues of pollution arising from excess pesticide use and improper agricultural waste management, the monitoring of land use to assess the impact of land conversion from agricultural use to commercial purposes.
186. For the past 7½ years, 452 new villages with a population of 1.25 million has only been allocated RM500 million out of the total agriculture and rural development allocation of RM35.2 billion. To ensure that these villagers who forms approximately 12.6% of the total rural population are not marginalised, RM450 million shall be allocated to ensure that the new villages will receive their fair share of development in this budget.

OBJECTIVE 2: STRENGTHENING OUR SOCIAL SECURITY SYSTEM

Fostering a Caring Society

187. The DAP will continue to fund various welfare programmes assisting the less fortunate, such as RM50 and RM70 monthly allowance for primary and secondary school students respectively from poor and deserving families.
188. However, it is clearly not practically and pragmatically possible for the Government to be able to reach out to all parties. Hence, the DAP will like to encourage more non-governmental organisations led by the civil society to reach out and rehabilitate those living in poverty. The Government will set aside a RM40 million fund to assist with projects carried out by these organisations.

A Healthy Population, a Prosperous Nation

189. The increased privatization of the health sector has resulted in the shift of health-related expenditures and risks from the society at large to that of the individual level. While it may be argued that it is proper for any person to bear a fair share of her medical expenditures, the shift in the sharing of such costs and risks has resulted in inequitable access of adequate healthcare to certain groups within the society. The paradox arises when those who can best afford healthcare are ones who need healthcare the least; it is the poor who can least afford to live in a healthy environment (e.g. lack of proper sanitation) and a healthy lifestyle (e.g. good nutrition). Therefore, DAP intends to increase public funding and investment in improving the standard of the public health sector by increasing from the RM10.0 billion allocation in 2007 to RM11.3 billion in 2008.
190. One of the key mechanisms to keep medical inflation in check is to “right-site” healthcare. Thus, there needs to be a major paradigm shift from a near absolute focus on provision of medical care to one which minimises the need for costly medical interventions. Good health requires more than just access to quality and affordable medical care. Research has convincingly shown that medical care has played a less important role than other factors in improving health in countries like the UK. Healthy lifestyles play a bigger role than medical care in achieving good health. The Ministry of Health will do this by enhancing health

promotion and education as well as disease prevention capabilities. RM75 million is set aside for health education and promotion initiatives include a National Healthy Lifestyle Programme, National “No to Smoking” Campaign, Nutrition Programme and a School Health Programme.

191. Amongst the diseases that require urgent attention is that of AIDS. Currently, there are about 75,000 HIV-positive people living in Malaysia. 70% of those who contracted the HIV virus are injection drug users and the spread of the virus is increasingly caused by heterosexual sex. DAP believes that an all-out awareness campaign to combat the spread of HIV is necessary. Sex education and drug-use prevention should be implemented in schools nationwide. RM20 million shall also be ear-marked to implement various measures to prevent the spread of the HIV virus.
192. To encourage the civil society are also strongly encourage to promote health awareness and education programmes. The DAP will set up an “Health Action & Protection Programmes (HAP-P) Fund” of RM50 million to be disbursed over a period of 5 years for local non-governmental organisations such as the Malaysian Aids Foundation, All Women's Action Society (AWAM) to undertake these worthwhile activities across the nation.
193. In line with the special salary readjustment for the police force on top of the revision of the civil service pay recently, the DAP proposes a 20% additional increment for all doctors serving in government service, and an additional 10% increment for all support staff such as nurses and pharmacists. This forms a necessary step to incentivise doctors who are currently in service and attract more young doctors to service in government hospitals, at least for the initial years. The medical profession in Malaysia are certainly one of the most poorly paid medical professionals in the region, resulting in many qualified Malaysian doctors seeking greener pastures overseas where they are in demand. At the same time, low wages compromises our healthcare system with sub-standard doctors recruited from many Third World countries.
194. To strengthen the medical practice in Malaysia which has been in decline in recent years, there is a need to combine the strengths of academic and clinical practice via the creation of academic medical centres of excellence in UM and UKM campuses. The strong clinical research component within these centres would focus on the major diseases affecting the populace and would play an important role in the formation of national health and disease control policies. To ensure that the above targets are achieved it is necessary that the entry requirements for medical courses at these universities be uncompromising in terms of standards. It is proposed that a separate entrance examination for medical-related degree programmes be conducted to ensure that there isn't a disparity in standards between the various entrance examinations.
195. Special attention would be paid to servicing the needs of the “medically underserved” population in rural and remote areas. Whenever the setup of medical clinics are not feasible, DAP ensures that any rural settlement would receive at least one visit every week from the mobile teams. Besides increasing the frequency and length of visits by these medical teams, selected individuals from the settlements would be given basic public health, first aid and medical training so that they will be able to provide basic services themselves, reducing their dependence on the medical visits over time.
196. Health services for estate workers will be improved by requiring estate owners to provide clearly stated levels of facilities and services such as piped water, proper toilets, decent housing and clinics with trained health personnel.
197. Local charities, social and religious groups have played a vital role in building a healthy Malaysia. Often, these organizations provide services that would not have been otherwise

provided by government on a sufficient scale. Some of the most well-managed kidney dialysis centres in the country are actually run by charitable organizations. DAP will work with these organisations to provide subsidized healthcare to those who are in need.

198. A team of independent academicians will be set up to evaluate the cost effectiveness of the privatisation exercises involving the public health sector. The findings, after making comparisons of the strengths and weaknesses in the systems of various countries, should be made available to the Malaysian public so that we can make an informed decision whether we wish to have any further privatisation of the health services in this country. Until the above study is released to the public, there will be a strict moratorium on all further privatization of components of the public health care sector.
199. Finally, a National Health Financing Oversight Committee will be set up to ensure that the funds allocated to health care are properly utilised and prevent waste via corruption or leakages. This committee will come under the direct purview of the Parliament.

Everyone Deserves a Roof

200. Housing development programs play an important role on improving the living standards of Malaysians and also on fostering a 'caring society'. Nonetheless, the actual progress of affordable-housing development for the low-income group has not only been unable to reach its expected level, but also unable to fulfil the ultimate aims of the program.
201. As of 2006, up to RM 2 billion of taxpayers' money had been allocated to revive abandoned housing projects, under the auspices of state agencies like the Syarikat Perumahan Negara Berhad (SPNB). Statistics from the Housing and Local Government Ministry in 2005 has shown that 60,000 Malaysians were victims of over 260 abandoned projects in Peninsular Malaysia that were collectively worth RM 8 billion. In 2004 and 2005, the housing project abandonment rate rose by 14%, with the number rising from 227 projects to 261 projects, involving 75,000 and 88,000 housing units respectively.
202. The DAP intends to reform the Malaysian housing policy into one that is more able to target the needs of the poor, making home ownership achievable by needy Malaysians. Such undertaking requires the adoption the capital housing subsidy model whereby the provision of subsidies to poor families would better allow them to buy homes produced by the private sector. The subsidies would need to be 'market-led' and accompanied by comprehensive economic and financial reforms that promote market competition.
203. Developers have now been given the option, as well as incentives to "build-then-sell", instead of the more widespread "sell-then-build" policy. However, there is little incentive for developers which possess the greatest risk to default or abscond to execute the former. Hence the risk of projects being abandoned remains equally high. Therefore, the DAP proposes that all low-cost projects shall with immediate effect be sold on the basis of build-then-sell. A successful implementation of the programme will lead to medium cost housing adopting the same policy. This policy will prevent the house purchasers, particularly those from the lower income group, the group who can least afford it, be trapped unjustly by weak or unscrupulous developers.
204. At the same time, to ensure that developers are not "pushed into a corner" in building unreasonably low-cost homes, without taking into consideration various market factors, a more flexible scale on house prices shall be implemented which will take into consideration these market factors. For example, while a low cost flat unit may cost RM40,000 in Pontian, the same unit may be charge at a higher price, say, RM60,000 in Kuala Lumpur. Housing

subsidies will be adjusted in accordance with the market prices such that the net effect for the qualified buyers remain unchanged.

205. For each of the abandoned low to mid-cost projects in the country, the Government shall set up a Housing Development Commission (HDC) in-charge of a RM5 billion fund to forcibly take over these projects from the developers. Existing buyers will be offered the option of selling the units back the HDC or alternatively await revival or completion of these projects. Unsold units will be sold to qualified purchasers to recover the cost of acquisition of the projects.
206. For the purposes of efficiency and transparency in administration, subsidies targeted at the needy house-buyers managed through financial institutions when the buyers apply for mortgages. Depending on their needs, the subsidy will be in the form of a discount to the purchase price, interest-financing or instalment subsidies. A successful implementation of these policies will ensure that all Malaysians will receive the housing which they deserve.

Neutralising Disability

207. DAP wishes to ensure the full and equal enjoyment of human rights and participation in society by persons with disabilities. Therefore, DAP would allocate a total of RM50 million to various agencies, the Jabatan Kebajikan Masyarakat Malaysia (JKMM) in particular, to intensify efforts in helping persons with disabilities to lead independent lifestyles, sustainable livelihoods and financial security.

208. The outlay would focus on:

1. Creation of customized programs to encourage participation of the disabled in the society. It is important to educate the disabled so that they are equipped with the necessary skills that would enable them to be a productive member of the workforce.
2. Decreasing the costs of hiring the disabled as faced by employers via the elimination of taxes payable on behalf on the disabled employees.
3. Cutting the inflation risk of allowances for the disabled by indexing the stipends to inflation. Such measure would preserve the purchasing power of allowances for the disabled over time.
4. Organizing forums, public discussions and information campaigns focusing on disability issues and trends and ways and means by which persons with disabilities and their families are pursuing independent life styles. The lack of exposure of the general public to the plight of the disabled has led to inaction and even stigma towards those who are disabled.
5. Enhancing the role and presence of charitable and non-profit organizations in helping the disabled. Volunteering programs in schools and communities would help to instil the sense of obligation and responsibility of the society on helping the unfortunate segments of the society.

209. To further fulfil the needs of the disabled, DAP proposes that all new buildings must be equipped with accessible facilities. In addition, older buildings without accessible facilities will be provided with a time-table to be fully accessible by 2012.

Low-Income and the “FairWage” Initiative

211. The EPF is a social security institution formed according to the Laws of Malaysia, Employees Provident Fund Act 1991 (Act 452) which provides retirement benefits for members through management of their savings in an efficient and reliable manner. With rising costs of living, extended life expectancy and more expensive medical treatments, it is critical that Malaysians save as much as possible to ensure sufficient funds for retirement. It is also important for as many Malaysians as possible to be included in the system.
212. However, as studies have shown, low-income Malaysians are facing significant difficulties in saving enough via EPF. As a result, the Government must act to assist this group of Malaysians who face various challenges in the face of globalisation, particularly with a stagnant or declining real wages. This is clearly reflected in the 9th Malaysia Plan Gini coefficient statistics where by income disparity among Malaysians has widened substantially. Malaysia ranked highest in terms of income inequality in Southeast Asia.
213. To assist low and medium-waged workers, DAP proposes to raise the Employer EPF Contribution Rate from the current 12% of total wages to 15%, representing a 25% increase. This will in turn raise the total contribution from the employer and employee to the fund to a total of 26%.
214. At the same time, in view of the increase in cost for the employers, which may in turn affect the competitiveness of Malaysian companies, it is proposed that a limit of RM8,000 per month or RM96,000 per annum be set to Employer contributions to the EPF. That means that for employees earning above the limit, their EPF contributions will continue to be calculated at the limit level.
215. However, for middle-age workers who are earning below RM1,400 per month, it is clear that they will continue to face severe challenges despite the increase in employer's EPF contribution. Whilst younger workers may be learning the ropes and learn new skills to upgrade their income level, older workers will face difficulties in our fast-changing economic environment and are in the greatest need of assistance from the state to make ends meet.
216. With the oil and gas sector contributing handsomely to the state coffers, it only makes social sense to share part of these gains with the less fortunate and lower income tiers within our society. However, at the same time, we still need to continue to incentivise these workers to secure employment to avoid over-dependence on the state. Hence, DAP proposes “FairWage”, an integral component of MENUS in promoting social justice. FairWage has a 3-prong strategy for implementation:
 1. To increase that take-home pay, workers will contribute a lower rate to the EPF. For with pay below RM900 per month, employee contribution to the fund will be waived while for those with income of not more than RM1,400 per month, the employee's contribution to EPF shall be reduced from the current 11% to 5%.
 2. To make them more employable, employers will reduce their rate of contribution to the EPF. For workers above the age of 35 to 55, earning between RM900 to RM1,400 per month, the employer contribution shall remain at the current 12%. For those earning less than RM900 per month in the same age group, the employer contribution shall decline to 10%.
 3. To compensate for the above, the Government will give workers FairWage income supplements to achieve a higher level of income. For workers aged 45 and above, receiving monthly income below RM900 per month, they will receive an annual income supplement

of RM2,400. For those workers above the age of 35 earning less than RM1,400 per month will receive RM1,600 per annum. Of the supplement, a quarter shall be in cash form, while the balance will be channelled into the EPF accounts. By channelling a larger portion into the EPF, it will help the workers save for their future needs. An additional 10% on top of the income supplement shall be applied to those who live in the Klang Valley, Johor Bahru as well as on the Penang Island to cope with the higher cost of living.

217. As an example, a 48 year old worker in Muar earning RM800 per month used to take home RM712, will find his take-home pay increased by 19.4% or RM138 (RM88 + RM50) to RM850. At the same time, despite a reduction in employer contribution to 10%, the overall contribution to the EPF account will increase from RM184 to RM230, representing a 25% increment. His total monthly income will hence be RM1,080, an increment of 19.5% from before.
218. As a separate example, a 42 year old worker in Kuala Terengganu earning RM1,200 per month will find his take-home pay increased by 9.9% or RM105.33 (RM72 + RM33.33) from RM1,068 to RM1,173. At the same time, the overall contribution to the EPF account will increase from RM276 to RM316 monthly, representing a 14.5% increment. His total monthly income will hence be RM1,489, an increment of 10.8% from before.
219. "FairWage" is not an original idea but an adaptation of best practices successfully implemented in other advanced countries. For example, in the United States, "Earned Income Tax Credit" acts like a negative income tax for low-wage workers, supplementing their earned income. Similarly, the UK has implemented a "Working Tax Credit" which has helped to reduce poverty and encourage work. While most recently, Singapore has introduced "Workfare" which supplements the income of older low-wage workers.
220. In addition to assisting current workers registered with the EPF, FairWage will also provide incentives for more workers, particularly odd-job or ad hoc labourers to insist on registration with the EPF by their employers due to higher pay. As a result, the overall system will be more inclusive for Malaysians, particularly those from lower income groups.
221. On top of that, DAP would introduce a "Malaysia Bonus" which will vary in accordance to the performance of the economy whereby poorer Malaysians will be able to share the fruits of the country's wealth. For 2008, the Malaysia Bonus shall be paid to those who have worked at least 6 months in 2007 based on their last drawn pay in December 2007. The Malaysia Bonus shall be channelled directly into the worker's EPF account and shall be available for immediate withdrawal.
 1. Those earning less than RM3,000 per month but at least RM2,400 will receive RM300
 2. Those earning less than RM2,400 per month but at least RM1,800 will receive RM600
 3. Those earning less than RM1,800 per month but at least RM1,200 will receive RM900
 4. Those earning less than RM1,200 per month will receive RM1,200
222. The FairWage scheme is expected to assist up to 2 million low-income Malaysian workers costing RM3.5 billion per annum while the Malaysia Bonus scheme will cost RM4.5 billion in 2008 benefiting more than 5 million Malaysians. We will review the above schemes annually to determine the best mechanisms to achieve a better living quality for all Malaysians without detrimental effects to a person's incentive to seek work. As an integral part of MENUS, the above policies will ensure that all Malaysians in need are taken cared of by the Government, the country's wealth is shared equitably and no community will be left behind.

Taking Care of the Elderly

223. As a responsible Malaysian and a considerate Government, it is very important for us to remember the contribution of our elderly population towards nation building. As a party that preaches filial piety as a value in our multi-cultural and multi-religious society, many of the senior citizens above the age of 60 in this country are finding it difficult to make ends meet.
224. The number of senior citizens in Malaysia almost doubled over the twenty years from 1970-1991 from 546 thousand persons in 1970 to 1.03 million persons. The numbers have increased by another 35 per cent over the last 10 years to 1.4 million persons or 6.3 per cent of the total population in 2000. Based on population projections, the number of elderly Malaysians will reach 2.13 million by 2010 or 7.4% of the total population.
225. Therefore, in conjunction with the Malaysia Bonus, DAP will put forward the Senior Malaysian Bonus. For a start, this shall be a two-tier programme for Malaysians aged above 60.
1. Those with not more than RM18,000 in annual assessable income *and* do not own a property valued above RM80,000 will be entitled to a RM1,000 bonus.
 2. Those who has more than RM18,000, but less than RM36,000 in annual assessable income *or* do not own a property valued above RM150,000 shall be entitled to RM600 bonus.

The Senior Malaysian Bonus will cost the Government RM1.28 billion to administer. The bonus shall be credited into their respective EPF accounts, and made available for withdrawal immediately. This exercise will also serve to encourage more Malaysians to maintain an EPF account, irrespective of whether they are wage earners or self-employed.

OBJECTIVE 3: IMPROVING PRODUCTIVITY & COMPETITIVENESS OF DELIVERY SYSTEM

226. A Budget or a blueprint will only be as good as its execution. Over the past decade or two, we have seen many ambitious and well-designed plans developed by the Government. However, often these projects have ended at best, a qualified success without achieving its original objectives, such as the Multimedia Super Corridor project or at worse, an unmitigated failure such as the BioValley or the MSC e-Village. In the past year, the administration has also launched several large-scale blueprints for various projects in Malaysia, including the Iskandar Developer Region (IDR), the Northern Economic Corridor as well as the East Coast Corridor. These efforts will all be in vain if they are not implemented with competence and integrity.
227. Therefore the focus of this budget has to be on substantially improving the competence and integrity of our civil service and delivery system to ensure that the benefits expected from Government initiatives will be enjoyed by all Malaysians.

Centralised Agency for Shared Expertise

228. DAP proposes the set up of the Centralised Agency for Shared Expertise (CASE) department under the Ministry of Finance to consolidate common functions between the various

Ministries. CASE aims to create synergies in Government which will bring costs down and achieve greater efficiency through economies of scale, standardisation and streamlining of procedures. A successful implementation of CASE will help the Government reduce up to 20% of its annual operating expenditure on the common functions such as human resources and finance functions.

229. CASE will also serve as an opportunity for the top performers in the civil service to climb the career ladder, upgrade and apply their skills on a broader scale, with an enhanced customer-oriented culture when providing value-added services to Government agencies. As this is a new department, only candidates with sufficient competence and integrity will be selected to lead the agency. If necessary, distinguished and proven personalities from the private sector will be head-hunted to join the agency. It will also at the same time, remove the “maverick elements” in the various ministries, removing the influence of the “little Napoleons”, corruption, inefficiency as well as abuse of power.

Civil Service Excellence Initiative

230. Malaysia has one of the highest ratios of government civil servant relative to its population at 4.68%. Even Japan, well known for its unwieldy civil service has a ratio of only 3.23. Others, including our neighbouring developing countries – Thailand (2.06), Korea (1.85), Philippines (1.81), Indonesia (1.79) - are all well below half the Malaysian ratio. To prevent the country from becoming the butt of jokes such as “the number of Malaysians needed to change a light bulb?”, it is essential that efforts must be made to contain the expansion of our civil service as well as boosting their efficiency and productivity. The bloated civil service has also become a substantial strain on the Government budget particularly with the recent wage revision, which increased budgeted emolument expenses from RM25.8 billion to RM33.8 billion or 27.9% of all operating expenditure. This amount hasn't yet taken into account pensions and gratuities which cost the Government some RM7.0 billion a year.

231. DAP proposes that a Civil Service Excellence Initiative (CSEI) be developed by the newly set up Special Task Force on Service Delivery (Pemudah) which includes private sector representation to achieve a leaner and meaner civil service sector. CSEI will aim to achieve headcount reductions through productivity improvements, job redesign or by re-prioritising functions. The CSEI will also develop plans on how non-performing staff may be procedurally retired from the Service. In the process of retiring or reassigning job functions of the civil service, it will also be mindful to ensure that it isn't the performers which are retired from the civil service, leaving behind the less competent.

232. A critical component of CSEI will be to incorporate the “stick” element for the civil service after the “carrot” in the form of higher pay has been provided. In any organisation, private or public, the “stick” element is critical to ensure that workers will perform their tasks competently and efficiently, as well as to prevent a culture of doing the “minimum to get by”. A dynamic and forward-looking public service will have to be nurtured through high quality training and development.

Revitalising E-Government

233. To improve customer satisfaction and investor confidence, we will need to develop a flexible and responsive government delivery system. As part of this programme, we will:

1. Make available government services via the Internet wherever possible,

2. Integrate e-services to make them more customer-centric for public access 24/7,
 3. Improve accessibility of public services via the Internet and other digital channels through initiatives such as the Self-service Internet Terminals at government departments, particularly at the local town and city councils where the greatest amount of transactions takes place.
234. While the above initiatives are not new, Malaysia's drive towards an e-government appears to have faltered in recent years as the global E-Government readiness ranking compiled by Waseda University showed that Malaysia has declined from 6th in 2004 to 14th in 2005 and 15th in 2006. A separate ranking prepared by Brown University which covered a broader range of countries placed Malaysia at 36th position in 2006. It is hence critical that for Malaysia to move up the value chain in the face of competition from other developing countries, our drive to create a more effective and efficient government must not compromise in the pursuit of excellence.

Private Sector Partnership

235. The Government should also harness the expertise of the private sector by not attempting to replicate existing services which are provided more efficiently by the latter. For example, instead of the Ministry of Human Resource spending millions to build an Electronic Labour Exchange raised in the 9th Malaysia Plan which has thus far attracted few users, it could certainly have leverage on the successful platforms of Jobstreet, JobsDB or other online job-matching services. The result would have been a much lower development and maintenance cost, as well as a much more successful job-matching platform.

Openness, Competition & Transparency

236. This leads to another one of the core pillars of MENUS, that is all Government contracts should be tendered in open, competitive and transparent manner. All qualified companies shall be provided with equal opportunities to secure Government supply contracts and projects, with the exception of preferences provided to key sectors which the Government seeks to develop, such as the IT sector with MSC status companies.
237. However, to prevent overwhelming disruptions to the current system, this policy shall be implemented on a gradual basis, commencing with projects or supply contracts sized above RM10 million for 2008. Larger contracts shall be made free from race-based requirements dictated in the current New Economic Policy as companies seeking to execute such contracts should be able to compete on an equal footing with special privileges. A committed time-table towards an open and competitive will also incentivise companies to improve capabilities and upgrade competencies at a faster pace, instead of remaining complacent, relying on handouts. In view of the challenges brought by globalisation, all tenders shall be made competitive, open and transparent by 2015. The new open, competitive and transparent tendering system will bring increasing cost savings as well as quality improvements over time, which is expected to be in billions of ringgit per annum.

REVENUE STRUCTURE FOR THE FUTURE

Increasing Challenges

238. Based on our proposed budget, the estimated revenue for the Government will be RM146.3 billion, an increase of 8.5% from the previous year. This will represent a lower increase in revenue compared to previous years of 13.5% and 11.8% in 2006 and 2007 respectively. The lower rate of increase is largely due to expected changes in the tax rates as outlined below.
239. The Government continues to be heavily reliant on petroleum related revenue as it constitutes more than 40% of the overall income. Petroleum related revenue is collected via income tax, export duties, royalties and dividends from Petronas. Last year, nearly 40% or an estimated RM53.7 billion is collected from this source.
240. The Government will face increasing challenges in the near future to sustain the high levels of government expenditure. Globally, corporate tax rates have come down to an average of 27% compared to 31% five years ago. Hong Kong's rate is currently at 17.5%, and could go down further. Ireland's is 12.5%. The emerging Eastern European economies have become serious competitors for global investment – Czech Republic is at 24%. Poland and Slovak Republic are at 19%. Hungary is at 16%. Latvia and Lithuania are at 15%. Nearer home, Singapore has lowered their income tax rate to 18%. Hence, Malaysia will be under continued pressure to reduce its income tax rates in order to remain competitive, particularly in attracting international investments. As it stands, based on last year's budget, corporate tax in Malaysia will be reduced to 26% in 2008 from 27% in 2007.
241. We have also been fortunate with the high amount of revenue collected from petroleum sources as crude oil prices have remained persistently high in the current year averaging approximately US\$70 per barrel. It also helps that commodity prices are at their highest levels in decades, particularly palm oil averaging above RM2,400 per tonne. However, as the prices of these commodities are not within our control, it cannot be taken for granted that revenue contributions from these sectors will continue to be overwhelmingly benign.
242. In the longer term, it has become critical for Malaysia to substantially increase its non-petroleum related revenues. Malaysia's petroleum reserves are expected to last us for another 20 years based on current production levels. While new reserves may be found, it cannot be taken for granted that the current production levels can be economically maintained. In addition, based on the current growth rates in energy consumption, Malaysia is expected to become a net oil importer within 4 years, laying further stress on Malaysian revenue for the future. Hence the DAP will design its tax and budget policies in the light of the above challenges.

Corporate Tax Structure

243. To maintain our competitiveness as well as to attract multinational companies and foreign direct investments into Malaysia, we will expect our corporate tax rates to be reduced further to 24% over the next 3 years while it should decline to 20% over the longer term.
244. In the past decade, Malaysia has become increasingly reliant on income from natural resources as well as commodities, which has clearly resulted in lacklustre small and medium enterprises (SMEs). To revitalise our SME sector which played a crucial role in the country's economic growth in the 1990s, it is proposed that the taxation policy for SMEs be further improved. Currently, SMEs with paid up capital of not more than RM2.5 million is taxed at

20% on their first RM500,000 chargeable income. Statistics from the 2000 census shows that SMEs constitute 99.7% of total enterprises in Malaysia, with a collective contribution of up to 29.1% of the country's total output.

245. To assist our SMEs to compete with their global counterparts, the tax rate for SMEs on their first RM500,000 chargeable income shall be reduced to 18%. In addition, a new partial tax exemption threshold shall be set at RM200,000 with effect from 2008 year of assessment will be set at 12%. This measure will enable the Government to widen its reach across all sectors to assist SMEs reduce its cost of doing business. It means that a SME with a chargeable income of RM900,000 will be taxed at an effective rate of 18%, in line with its competitors across the causeway in Singapore. While, revenues will be expected to drop in the immediate term, it is anticipated that in the medium term, this reduction in tax for SMEs will bring Malaysia more investments, and correspondingly more employment opportunities.
246. In order to encourage and nurture a more entrepreneurial economy, DAP will propose that start ups will enjoy full tax exemption on the first RM200,000 of their chargeable income for each of their first three years of assessment.

Personal Income Tax Structure

247. Similar to corporate tax rates, personal income tax throughout the world has also been on the decline. As we maintain a relatively high tax rate of 28% at the top bracket, it serves as a deterrence for foreign talent moving to Malaysia, particularly in the critical knowledge intensive industries. At the same time, it serves as a “push factor” to our local brains in specialist sectors to seek employment overseas which not only pay significantly better, but also tax less. Thus, DAP proposes a 1% reduction in personal income tax to 27% for 2008.
248. On top of the tax cut, it is also proposed that the top tier of the income tax bracket be raised from RM250,000 chargeable income currently to RM300,000. To assist the Malaysians cope with the rise in living expenses, particularly in urban areas, it is also proposed that the first RM15,000 chargeable income will be tax exempt, with the subsequent RM15,000 taxed at 7%. Currently, only the first RM2,500 is tax exempt while the next RM2,500 is taxed at 1%. Based on the new tax structure, a married worker with RM3,000 pay per month, a full-time housewife who looks after 2 young children will pay no taxes, whereas under the previous tax structure, he will be expected to pay between RM55 to RM445 depending on his insurance premiums and medical expenses for his family, including parents. The full tax schedule is attached in Annex E.

New & Future Sources of Revenue

249. To meet the challenges of every reducing income tax rates, which is partially compensated by rising income, we will need to seek new revenue sources. For example, currently, some 70,000 vehicle import approved permits (APs) are issued annually for fully imported cars. It is proposed that these APs are auctioned off to the highest bidders who wish to import cars, with the exercise conducted monthly. Based on an estimated market price of RM25,000 per AP, the auction will provide an additional RM1.75 billion to the Government's coffers.
250. As highlighted in the above section on Energy and Environment, a “carbon tax” of RM25 per tonne of CO₂ equivalent will be implemented by 2010. A 5% minerals and forestry extraction severance tax shall also be imposed to promote better environmental management. Green taxes will partially compensate for the decline in personal and corporate income taxes.
251. The tax system will also be further fine-tuned to ensure a fair system for everyone. For

example, vehicles should be taxed on the basis of vehicle usage rather than ownership. A car which is only used during the weekends should be taxed less than an equivalent car which is used on a daily basis. Such a system will also encourage increased utilisation of public transport and reduce congestion on our roads.

252. Besides realigning and reforming our taxation system, DAP seeks to improve the utilisation and allocation of existing revenues via savings from improved delivery system. With the proposed staged implementation of MENUS, there will be increasing savings from a open, competitive and transparent tender management system. Such savings will be to the tune of billions of ringgit enabling the Government to spend less for the same goods and services, with improved quality of delivery. Measure put in place to streamline the government administration to create a lean and mean civil service will also contribute significantly towards lower government expenditure.
253. Finally, DAP's proposal to renegotiate exploitative contracts by licensed monopolies such as the toll concessionaires and the independent power producers will not only result in a lower cost of services to all Malaysians but also expenditure savings for the government. These savings will then cross-subsidize public interest projects such as the development of the public transportation system or alternative energy implementation exercises.

CONCLUSION

254. The DAP is putting this proposed budget forward to the Government as a budget which will leverage on Unity to drive Equity, Growth and Innovation. It is only with Unity, achieved through fair and equitable economic policies personified by MENUS, will the country achieve the synergies of its people working together wholeheartedly to build a better Malaysia for all Malaysians.
255. The DAP Budget for 2008 contains both original ideas and adapted best practices from successful policies implemented around the world. It is a budget with responsible government expenditure and takes into account the challenges of globalisation. It is a forward looking budget which seeks to make the best use of our one-off income from depleting petroleum resources. Most importantly, the Budget invests in all low-income groups within the community to ensure that no deserving Malaysian in need will be ignored or marginalised.
256. By adopting the DAP budget, Malaysia can look forward to a brighter and more prosperous future, a Malaysia which all Malaysians can be proud of.

ANNEX A – Federal Government Financial Position

Table A1

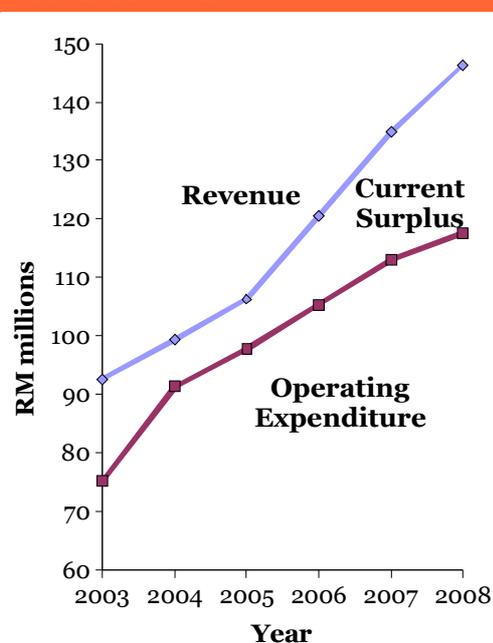
Federal Government Financial Position
2006 - 2008

| | RM million | | | Change (%) | | |
|-------------------------------|----------------|-------------------|-------------------|-------------|-------------|-------------|
| | 2006 | 2007 ¹ | 2008 ² | 2006 | 2007 | 2008 |
| Revenue | 120,625 | 134,815 | 146,269 | 13.5 | 11.8 | 8.5 |
| Operating expenditure | 105,374 | 116,986 | 117,643 | 7.8 | 7.2 | 4.1 |
| Current balance | 15,251 | 17,829 | 28,626 | 78.2 | 43.1 | 31.1 |
| Gross development expenditure | 35,814 | 44,510 | 51,817 | 17.3 | 24.3 | 16.4 |
| Less: Loan recoveries | 1,274 | 2,485 | 2,734 | -60.8 | 95.1 | 10.0 |
| Net development expenditure | 34,540 | 42,025 | 49,083 | 26.6 | 21.7 | 16.8 |
| Overall balance | -19,289 | -24,196 | -20,457 | 3.0 | 4.7 | 1.3 |
| % of GDP | -3.5 | -4.1 | -3.2 | | | |

¹ Revised based on RM4 billion increase in wages for the civil service from July – December 2007.

² Estimate based on overall economic development reports and DAP projections

Chart A1: Federal Government Finance Current Account



As per Table A1 above, our budget is expected to contain the budget deficit to 3.2% after the Government failed to meet its target of 3.4% for last year. The estimated deficit increased to 4.1% after the Government announced wage revision for the civil service which costs the government RM8 billion per annum.

It is critical for the budget deficit to be contained during the periods of economic growth, so as to ensure that there will be sufficient reserves for expenditure in the event of a crisis. The growth of 4.1% in operating expenditure is largely due to the increase in emoluments, without which it would have been relatively contained. Hence the bulk of the modest increase in revenue is allocated to development expenditure, which grew by 16.4%

As illustrated in Chart A1, the Government's operating expenditure has increased significantly by more than 50% in just under 5 years. It is hence necessary to keep the operating cost in check despite the corresponding increase in revenue. Additional revenue should always as far as possible be channelled towards development expenditure which will bring about the most substantial economic impact for the country.

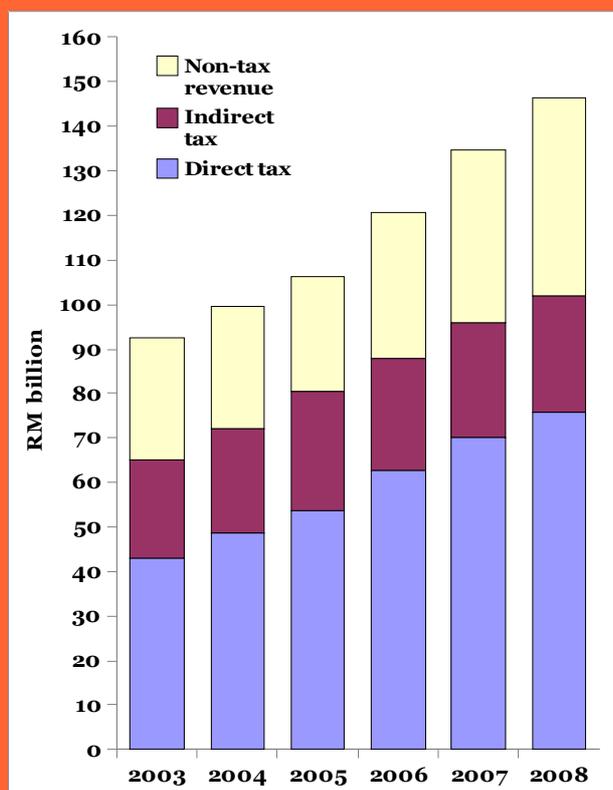
Hence for 2008, operating expenditure as a proportion of total revenue is reduced to 80.4% compared to 86.8% in the 2007 budget.

ANNEX B – Federal Government Revenue Estimates

Table B1
Federal Government Revenue
2006 - 2008

| | RM million | | | Change (%) | | | Share (%) | | |
|----------------------|----------------|----------------|----------------|-------------|-------------|------------|--------------|--------------|--------------|
| | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 |
| Tax revenue | 87,863 | 95,794 | 101,785 | 9.0 | 9.0 | 6.3 | 72.8 | 71.1 | 69.6 |
| Direct tax | 62,637 | 70,116 | 75,722 | 17.0 | 11.9 | 8.0 | 51.9 | 52.0 | 51.8 |
| of which: | | | | | | | 0.0 | 0.0 | 0.0 |
| Companies | 28,414 | 30,127 | 31,784 | 7.7 | 6.0 | 5.5 | 23.6 | 22.3 | 21.7 |
| PITA | 20,404 | 24,693 | 27,656 | 40.1 | 21.0 | 12.0 | 16.9 | 18.3 | 18.9 |
| Individuals | 9,649 | 10,555 | 11,136 | 11.6 | 9.4 | 5.5 | 8.0 | 7.8 | 7.6 |
| Indirect tax | 25,226 | 25,678 | 26,063 | -6.7 | 1.8 | 1.5 | 20.9 | 19.0 | 17.8 |
| of which: | | | | | | | 0.0 | 0.0 | 0.0 |
| Excise duties | 8,798 | 9,463 | 9,936 | -5.6 | 7.6 | 5.0 | 7.3 | 7.0 | 6.8 |
| Sales tax | 6,281 | 5,812 | 5,378 | -18.5 | -7.5 | -7.5 | 5.2 | 4.3 | 3.7 |
| Non-tax revenue | 32,762 | 39,021 | 44,484 | 27.4 | 19.1 | 14.0 | 27.2 | 28.9 | 30.4 |
| of which: | | | | | | | 0.0 | 0.0 | 0.0 |
| Total revenue | 120,625 | 134,815 | 146,269 | 13.5 | 11.8 | 8.5 | 100.0 | 100.0 | 100.0 |
| % of GDP | 22.0 | 22.6 | 23.1 | | | | | | |

Chart A2:
Major Components of Federal
Government Revenue



- 2008 figures are based on DAP estimates based on overall economic development reports

The total revenue estimated for the Government is RM146.3 billion, at a growth rate of 8.5% which is the slowest in the past 3 years. The rate of growth of Government revenues are expected to decline further in the future in part due to competition for investment from our regional neighbours via lower tax rates. Persistent high oil and commodity prices however, will continue to boost government revenues.

In the short term, Malaysia will continue to be heavily depended on petroleum-related tax and non-tax revenue. Their contributions, which includes taxes, dividends, royalties and export duties makes up an estimated 46.8% of government revenue for 2007 and nearly 40% of the government's expenditure. They are expected to fund in excess of 40% of the proposed government expenditure for 2008.

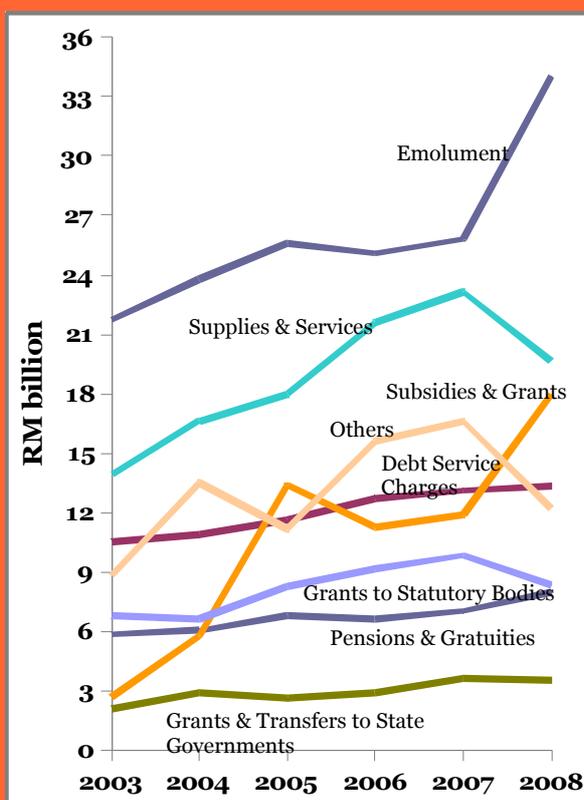
As shown in Chart B2, between 2003 to 2008 the trend has been an increasing proportion of government revenue sourced from non-tax sources. This will include income from derived from the government's investments via Khazanah and other vehicles as well as via other proposed measures such as the auctioning of vehicle approved permits.

ANNEX C – Federal Government Operating Expenditure by Object

Table C3:
Federal Government Operating Expenditure by Object
2006 - 2008

| | RM million | | | Change (%) | | | Share (%) | | |
|-----------------------------|----------------|-------------------|-------------------|------------|------------|------------|--------------|--------------|--------------|
| | 2006 | 2007 ¹ | 2008 ² | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 |
| Emolument | 25,089 | 29,815 | 34,000 | -1.9 | 18.8 | 31.7 | 23.8 | 22.9 | 28.9 |
| Debt service charges | 12,726 | 13,127 | 13,339 | 9.7 | 3.2 | 1.6 | 12.1 | 11.6 | 11.3 |
| Grants to state governments | 2,906 | 3,645 | 3,532 | 11.2 | 25.4 | -3.1 | 2.8 | 3.2 | 3.0 |
| Pensions and gratuities | 6,638 | 7,049 | 8,000 | -2.5 | 6.2 | 13.5 | 6.3 | 6.2 | 6.8 |
| Supplies and services | 21,608 | 23,147 | 19,675 | 20.2 | 7.1 | -15.0 | 20.5 | 20.5 | 16.7 |
| Subsidies | 11,251 | 11,908 | 18,000 | -16.0 | 5.8 | 51.2 | 10.7 | 10.5 | 15.3 |
| Grants to statutory bodies | 9,183 | 9,854 | 8,376 | 10.8 | 7.3 | -15.0 | 8.7 | 8.7 | 7.1 |
| Refunds and write-off | 357 | 1,815 | 500 | 24.0 | 408.4 | -72.5 | 0.3 | 1.6 | 0.4 |
| Others | 15,616 | 16,626 | 12,221 | 39.7 | 6.5 | -26.5 | 14.8 | 14.7 | 10.4 |
| Total | 105,374 | 116,986 | 117,643 | 7.8 | 7.2 | 4.1 | 100.0 | 100.0 | 100.0 |
| % of GDP | 19.2 | 18.9 | 18.6 | | | | | | |

Chart C3: Federal Government Operating Expenditure 2003 - 2008



¹ Revised based on RM4 billion increase in wages for the civil service from July – December 2007.

² Estimate based on overall economic development reports and DAP projections

We have budget RM117.6 billion for operating expenditure, representing a marginal 4.1% increase from the previous year. It is an attempt to rein in the expenses as operating expenditure has been increasing at a breakneck pace in the past 4 years by 55.5%.

Emoluments represents the largest component of all expenses at 28.9% and increasing by 31.7% due to the RM8 billion civil service pay rise.

With the implementation of MENUS, we expect to reduce the cost of supplies and services by 15% from a high of RM23.1 billion last year to RM19.7 billion in 2008.

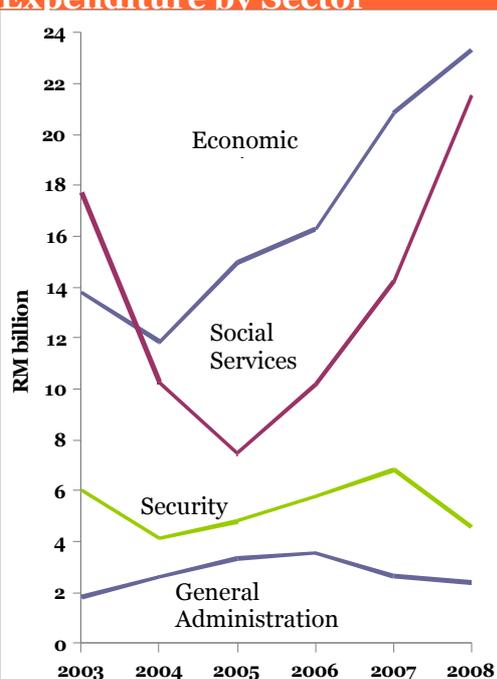
However, with the implementation of FairWage and Malaysia Bonuses, the allocation for subsidies and grants is expected to increase substantially from RM11.9 billion to RM18.0 billion. At the same time, with the renegotiation of IPP contracts, we expect subsidies for fuel to be reduced accordingly.

ANNEX D – Federal Government Development Expenditure by Sector

Table D4:
Federal Government Development Expenditure by Sector
2005 - 2008

| | RM million | | | Change (%) | | | Share (%) | | |
|-----------------------------------|---------------|---------------|---------------|-------------|-------------|-------------|--------------|--------------|--------------|
| | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 |
| Economic services | 16,283 | 20,827 | 23,346 | 8.9 | 27.9 | 12.1 | 45.5 | 46.8 | 45.1 |
| of which: | | | | | | | | | |
| Agriculture and rural development | 3,681 | 4,157 | 4,573 | 48.3 | 12.9 | 10.0 | 10.3 | 9.3 | 8.8 |
| Trade and industry | 3,791 | 5,102 | 3,571 | 17.7 | 34.6 | -30.0 | 10.6 | 11.5 | 6.9 |
| Transport | 6,198 | 7,298 | 9,487 | -19.1 | 17.7 | 30.0 | 17.3 | 16.4 | 18.3 |
| Social services | 10,194 | 14,218 | 21,524 | 36.8 | 39.5 | 51.4 | 28.5 | 31.9 | 41.5 |
| of which: | | | | | | | | | |
| Education and training | 5,175 | 7,941 | 14,294 | 38.5 | 53.4 | 80.0 | 14.4 | 17.8 | 27.6 |
| Health | 1,297 | 1,629 | 2,118 | 6.3 | 25.6 | 30.0 | 3.6 | 3.7 | 4.1 |
| Housing | 1,895 | 2,153 | 2,368 | 75.1 | 13.6 | 10.0 | 5.3 | 4.8 | 4.6 |
| Security | 5,781 | 6,817 | 4,564 | 20.4 | 17.9 | -33.1 | 16.1 | 15.3 | 8.8 |
| General Administration | 3,556 | 2,648 | 2,383 | 7.0 | -25.5 | -10.0 | 9.9 | 5.9 | 4.6 |
| Total | 35,814 | 44,510 | 51,817 | 17.3 | 24.3 | 16.4 | 100.0 | 100.0 | 100.0 |
| % of GDP | 6.5 | 7.5 | 8.7 | | | | | | |

Chart D4: Federal Government Development Expenditure by Sector



* 2008 figures are based on DAP estimates based on overall economic development reports

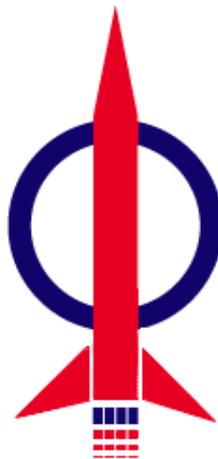
The overall development expenditure is budgeted to increase by 16.4% from RM44.5 billion to RM51.8 billion. As a proportion of the country's GDP, it has also increased from 7.5% to 8.7%.

Expenditure for economic services increased by 12.1% and continues to absorb the highest proportion of expenditure at 45.1%. However, expenditure for social services will increase the most at 51.4%, increasing its share from 17.8% to 27.6%. This is largely achieved at the expense of the development budget for security which will decline by 33.1% from the previous year.

The biggest beneficiary of the increased spending is in education and training which improved by 80.0% from RM7.9 billion to RM14.3 billion. The other biggest beneficiaries are the expenditure for transport and health which are both budget to increase by 30.0%. With the restructure expenditure priorities, the budget is expected to deliver both longer term economic returns as well as a better quality of life for all Malaysians.

ANNEX E – Revised Schedule for Personal Income Tax Rate**Table E1: Revised Schedule for Personal Income Tax Rate 2008**

| Chargeable Income | RM | Rate | Tax (RM) |
|--------------------------|---------------|-------------|-----------------|
| On the first | 15000 | 0.00% | 0 |
| On the next | 15000 | 7.00% | 1050 |
| On the first | 30000 | - | 1050 |
| On the next | 20000 | 11.00% | 2200 |
| On the first | 50000 | - | 3250 |
| On the next | 25000 | 15.00% | 3750 |
| On the first | 75000 | - | 7000 |
| On the next | 25000 | 18.00% | 4500 |
| On the first | 100000 | - | 11500 |
| On the next | 50000 | 20.00% | 10000 |
| On the first | 150000 | - | 21500 |
| On the next | 50000 | 22.00% | 11000 |
| On the first | 200000 | - | 32500 |
| On the next | 100000 | 25.00% | 25000 |
| On the first | 300000 | - | 57500 |
| Exceeding | 300000 | 27.00% | - |



Printed & Published by Democratic Action Party Malaysia
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