

Democratising Malaysia's Economy

DAP Alternative National Budget 2010



DEMOCRATISING MALAYSIA'S ECONOMY

DAP Alternative National Budget 2010

DAP Economic Bureau

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1 Foreword

The DAP Alternative National Budget 2010 marks the progress the Party has made in the field of economic policy making, and our readiness to assume the role of a governing party in the Federal Government as and when such opportunities arise in the near future.

Our first Alternative National Budget was launch on the 5th September 2007 for the year 2008, before the last historic general elections where Pakatan Rakyat denied the Barisan Nasional two-third majority in the parliament, and winning government in 5 Malaysian states. This new Alternative National Budget 2010 picks up from where we left off in 2007, enhancing our proposed economic policies with stronger strategies and proposals based on further in depth research and analysis.

As Malaysia face one of the most challenging economic period in times of uncertain global demand, it is critical that the Malaysian government takes decisive actions to spur the economy and ensure that we will not only recover from this recession, but also emerge stronger and more competitive than we were before the onset of the recession. However, a review of the Barisan Nasional (BN) government's actions to date coupled with its track record over the past 12 years paints a less than optimistic picture.

At a time when the economy is faltering globally, is exactly the time for the government to pump-priming to boost domestic demand and competitiveness. However, despite the urgent need to boost government expenditure, the BN government is now finding out the hard way that they have in essence, run out of money to spend and are struggling to contain and maintain the high and escalating cost of government.

Malaysia had it so good for the 10 years of positive economic growth, was crucially aided in the last 5 years by lucrative windfall returns from the oil and gas sector due to skyrocketing oil prices. Sudden and belatedly the Government has realised that they have not had a single cent of savings all these "good" years. What made matters worse is the fact that oil prices have fallen far below the expected price of US\$125 per barrel in 2009, which means there will be no windfall earnings in the coming year to "boost" Government expenditure for 2010.

Oil and gas revenue contributions to the Government had increased from RM19 billion in 2004 to more than RM70 billion in 2009 and despite that, every single cent of our oil and gas windfall earnings has been spent. Not only did we not save a single cent for the rainy day, the Government borrowed extensively on top of these windfall earnings, resulting in 12 consecutive years of budget deficits, and rapidly increasing our national debt regardless of whether the economy is performing or underperforming.

It may have been a different story had these windfall earnings been invested or spent on development projects. However, the overwhelming portion of the record earnings went to the Government's operational expenditure to further enlarge the civil service, payment of supplies and maintenance services as well as extraordinary items such as compensation to already highly profitable highway toll concessionaires. This does not include of course all the money "burnt" via scandalous investments such as the RM12.5 billion Port Klang Free Zone, tens of millions of irrecoverable losses by the Ministry of Tourism subsidiary, Pempena and of course, the high prices the Malaysian government pays for the daily goods and services such as pens, paper, screwdrivers, digital cameras and carjacks.

Between 2003 to 2009, the Government's operating expenditure has increased by leaps and bounds, from RM53.4 billion in the year 2000, to RM80.5 billion when Datuk Seri Abdullah Ahmad Badawi took over as the Prime Minister in 2004, to RM154.2 billion in 2009. However, development

expenditure, which has the highest economic multiplier effects, has only increased disproportionately lower from RM29 billion in 2004 to RM50.5 billion in 2009.

Barisan Nasional's reckless management of the country's wealth and windfall blessings have resulted in a structurally weaker Malaysian economy compared to many of our regional peers. This recklessness must be checked immediately to ensure that the mistakes are not repeated. If the Government continues to accumulate debt on an unsustainable basis over the longer term, then it is our children and grandchildren who will be paying for their mismanagement today.

In addition, our experience in state governments over the past 18 months has also provided us with a better understanding of practical issues affecting economic development in Malaysia, and which requires major shifts in the way our public policy and economy is managed. Economic planning and management has become increasingly centralised in Malaysia over the past 2 decades to the extent that it has become bureaucratic and inefficient in carrying out economic initiatives.

For example, in Penang and Selangor where DAP plays a major role in the state government, we find our efforts hampered by the total lack of control over funding for projects and development, and are subjected to the whims and fancies of the Federal Government. While Selangor and Penang contribute RM16 billion and RM2.5 billion respectively in income taxes to the Federal Government, in return they receive federal grants amounting to only RM247 million and RM127 million respectively.

Hence contained in this Alternative Budget proposal are policies and programmes which seek to reverse the reckless and gross mismanagement of the rakyat's money by the BN Government, and at the same time reduce the bureaucracy of central planning and devolve monetary and decision-making to state levels to increase efficiency and effectiveness of Government.

The theme for this year's Alternative Budget is "Democratising Malaysia's Economy" for not only is the Malaysian political scene in need of greater democracy, the economy as well is in a serious need for a dose of democratisation to ensure that Government expenditure works in the interest of the people who pay the taxes, that Government policies does not favour the wealthy and politically connected over ordinary citizens and Malaysian states receive their fair share of fiscal freedom proportionate to their economic contributions and financial needs.

We strongly believe that by "Democratising Malaysia's Economy", we will be able to not only unleash the next wave of high economic growth for Malaysia, but also put in place a set of economic policies and institutions which will ensure the economic rights of Malaysians are perpetually protected, regardless of the Government which is in power. By "Democratising Malaysia's Economy", we will promote our objective of creating a Competent, Accountable and Transparent (CAT) government.

This Alternative Budget 2010 will form DAP's core economic policy and manifesto in the next few years and we will submit our proposals to the Pakatan Rakyat Leadership Council for consideration, and with further input from our partners in PKR and PAS, its adoption.

Finally, we'd like to thank the immeasurable contributions of the core budget team led by DAP National Publicity Secretary and MP for Petaling Jaya Utara, Tony Pua and my former Economic Advisor, Teh Chi Chang who has since returned to full employment, comprising of Lee Kok Yew, Cheah Yi Peng, Lew Yin How and Sugashini Kandiah. Special mention is also be extended to John Lee Ming Keong and Ho Horng Yih for providing their views and input. And finally, on behalf of the team, we'd like to thank Dr Woo Wing Thye of University of California at Davis, who took time to review our early drafts of the Alternative Budget and provided us with invaluable insights of "fiscal federalism".

Lim Guan Eng
Secretary-General, Democratic Action Party Malaysia
7 October 2009

2 Introduction

2.1 Global Economic Outlook - Uncertain Recovery Ahead

The global economy appears to be pulling out of the depths of a recession unprecedented in the post–World War 2 era. Key economic indicators are now showing smaller contractions, but stabilization is uneven and ultimate recovery remains uncertain.

The IMF estimates the global economy will shrink by 1.4% this year. It expects recovery momentum will continue, resulting in 2.5% growth in 2010. Emerging Asia is expected to post 5.5% and 7.0% growth over 2009 and 2010, helped by substantial macroeconomic stimulus in India and China and a faster-than-expected turnaround in capital flows. The advanced economies are projected to see GDP decline by 3.8% in 2009 before growing a very modest 0.6 percent in 2010.

However, substantial risks to recovery remain. The recent growth momentum in Asia is likely to peter out unless the advanced economies recover. Conditions remain challenging in the developed world, particularly the world's largest consumer nation, the United States. Financial conditions have improved dramatically owing mainly to government intervention but financial systems remain impaired.

These governments now need to unwind extraordinary levels of public intervention in an orderly manner while keeping financial sector confidence. In addition, domestic demand is likely to be weak as households in countries that suffered asset price busts will need to rebuild savings while wounded financial intermediaries curtail lending. Rising cyclical employment may translate into higher structural employment, further affecting domestic demand. Given the weak internal demand outlook, countries which previously ran substantial trade deficits now need to develop policies to sustain stronger external demand.

By implication, the reverse will be required in countries that posted large current account surpluses. Policy success rebuilding financial sectors in the advanced economies and in supporting private consumption in emerging economies with large current account surpluses will be critical to sustaining the global economic recovery.

2.2 Malaysia Economic Outlook: Domestic Demand is Crucial

The Malaysian economy is expected to contract 3.5% this year and grow 3.8% in 2010 based on the average projections by a number of research institutes and local banks.¹

The 1st quarter of 2009 saw the worst quarterly GDP contraction in a decade, with GDP plunging 6.2% year on year. This was largely due to weak investment (a drop of 10.6% in Total Investment) and the contraction in our real exports by 18.0% in the 1H (bringing the full-year to -12.2% compared to +1.3% in 2008). The manufacturing sector declined significantly by 17.6% led by a 23.1% contraction in export-oriented industries with the electrical and electronics subsector experiencing a steep 41.4% contraction. The domestic-oriented industries also experienced a decline of 15.9% due to weakness in both consumer- and construction-related subsectors.²

¹ Refer to Part II of Annex X: Projection of Government Revenue

² <http://biz.thestar.com.my/news/story.asp?file=/2009/5/27/business/20090527192807&sec=business>

The situation began improving in 2nd quarter of 2009 with the improving external outlook as the country's real export is expected to contract by a smaller magnitude of 4.0% year on year in the 2nd half of 2009.

According to a recent research by RHB, "Economic Outlook: Past The Worst and The Economy is on the Mend", the 3.8% growth forecast in 2010 is predicated on a strong rebound in the Total Investment growth from -10.6% in 2009 to 7.4% in 2010, fuelled by a 10.0% growth in Private Investment. The exports outlook is also expected to improve to a growth of 5.1%. The aggregate domestic demand is also set to achieve 5.0% growth in 2010 compared to -0.1% in 2009.

However, substantial risks to the global economy remain as the developed countries grapple with policy challenges including unwinding unprecedented government intervention in the financial sector in an orderly manner, restoring the financial sector and weak domestic demand.

3 The Challenges Ahead for Malaysia

The Malaysian government must be prepared to bolster domestic demand in the event of the global economy faltering. Also, as global-imbalances are adjusted in the medium-term, Malaysia must accept that export growth will slow. It is thus critical to foster sustainable domestic demand.

However, there are significant financial constraints on the government after 12 consecutive years of fiscal deficits starting from 1998.³ The government had been boosting its role in the Malaysian economy even while global conditions were rosy.

For example, in 1990, private investment accounted for 65% of total investment. By 2005, that had fallen to 45%. Government share of investment, on the other hand, rose to 55% from 35%.

Table 1: Private investment has been falling

(actual value of category as % of GDP)

	1990	1995	2000	2005
Total Investment	33.9	45.7	25.6	20.0
Private Investment	21.9	32.7	12.8	8.9
% of Total Investment	65%	72%	50%	45%
Public Investment	12.0	13.0	12.7	11.1
% of Total Investment	35%	28%	50%	56%

Source: 7th, 8th, and 9th Malaysia Plan, and 9th Midterm Review

Note: Private Investment = Domestic Private Investment + Foreign Investment + Investment by Government-Linked Companies (GLC)

Professor Woo Wing Thye of the Brookings Institution and University of California at Davis explains it succinctly:

“The phenomenon of public investment being counter-cyclical and private investment being cyclical is understandable. However, because the 2000-2007 period is not a recessionary period in the global economy, the slowdown in the Malaysian growth rate, and the continual rise in the share of public investment in this period are unhealthy symptoms. They suggest an escalated use of public investment spending to deal with a slowdown in trend growth caused by a slowdown in private investment spending...this is not a sustainable macroeconomic strategy.”⁴

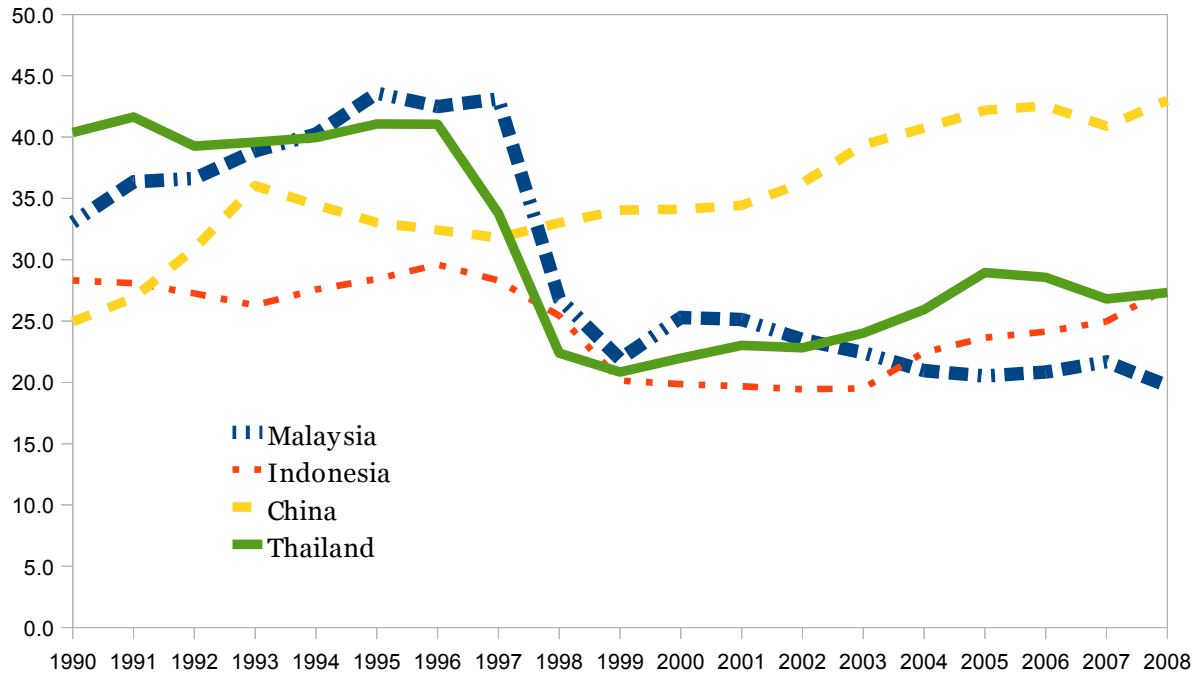
The government’s increasing investment spend has clearly not been effective given that Malaysia’s GDP growth has lagged its ASEAN neighbours such as Singapore and Thailand.

³ The last actual budget surplus is 2.5% of GDP in 1997

⁴ Woo, Wing Thye “Overcoming the Obstacles to High Growth in Malaysia” Aug 2009

The near-term prognosis for GDP growth relative to peers is also poor, given that the investment ratio to GDP is at a low level of about 20%, compared to the 44% pre-crisis high in 1995. Indonesia is now surpassing us on this measure as shown in Figure 1 below.

Figure 1: Indonesia has surpassed us in attracting investments



Source: IMF

The clearest indicator of Malaysia’s waning attractiveness as an investment destination is its dubious honour of being the only ASEAN country to suffer net investment outflow in 2007. This was also the first time ever Malaysia suffered a net outflow. The RM9 billion net outflow is even more concerning if we bear in mind that that 2007 was the year that the Southeast Asian Region recorded its highest ever foreign direct investment inflow – up 81% to RM209bn.⁵

On the domestic socio-economic front, the problems of rising income inequality and deteriorating education quality loom large. Income inequality in Malaysia is the worst in Southeast Asia. Specifically, our Gini coefficient of 0.441 places us 99th out of 126 countries, which is comparable to the sub-Saharan Africa countries such as Cameroon (0.446) and Nigeria (0.437).⁶

Our university student numbers have grown tremendously, from 574,000 in 2000 to 732,000 in 2005 and an expected 1.3m in 2010.⁷ However, we have been emphasizing on quantity over quality. Not one of our universities made it to the top 200 list in the Times Higher Education-QS World University Rankings, nor the alternative rankings table compiled by the Shanghai JiaoTung University. Neither is there any Malaysian university in the Top 100 Universities for five subject areas – Natural Sciences, Social Sciences, Arts and Humanities, Life Sciences and Biomedicine, and Technology.

⁵ United Nations Conference on Trade and Development World Investment Report

⁶ Human Development Reports, United Nations Development Program, Malaysia Economic Reports

⁷ 9th Malaysia Plan, Table 11-6.

Furthermore, Malaysian students' performance in Mathematics and Science has also fallen. Form Two students have participated in the last three Trends in International Mathematics and Science Study (TIMSS), which is a four-yearly international assessment of the mathematics and science knowledge and achievements of Grade 4 and Grade 8 students. In 1999, Malaysia placed in Mathematics and 22nd in Science; in 2003, Malaysia improved to 10th in Mathematics and 20th in Science. But in 2007, Malaysia fell to 20th in Mathematics and 21st in Science. Malaysia is now significantly below the TIMSS scale average in both mathematics and science.⁸

The poor quality of our education system is evident in the unemployment rate among graduates in Malaysia. In 2007, 30.3% of graduates from public institutions were still unemployed 6 months after graduation. This compares to 23.2% of graduates from private institutions.⁹

These considerable national challenges have to be met even as we face significant budgetary constraints. Our national debt is estimated to be 56.9% of GDP in 2009 according to IMF, and credit rating agency FITCH has downgraded our long-term local currency credit rating earlier this year from A+ to A. Our capacity to borrow is becoming increasingly limited. Further pressures come from the expected reduction in oil revenues, which constitute an estimated 43.5% of the 2009 Government Revenue, and likely reduction in corporate and income tax collections due to the weak economy.

⁸ TIMSS 2007 International Mathematics and Science Reports

⁹ Graduates Tracer Study

4 Budget Objectives

To meet the challenges of improving Malaysian global economic competitiveness while addressing the growing rich-poor disparity in Malaysia and being mindful of the fiscal constraints and harnessing our oil resources effectively, the DAP Budget 2010 is themed “Malaysian Economic Democratisation”. The goals of economic democratisation is to ensure that public funds and expenditure by the government will be more effectively and efficiently spent in accordance to the needs of the people, ensure that public projects are structured in mechanisms which will benefit the rakyat as opposed to politically-connected operators as well as enabling Malaysians to achieve greater economic freedom. The process of “economic democratisation” will hence focus on 3 key thrusts, that are:

- I. Economic Democratisation - Fiscal Decentralisation
- II. Rakyat First - Restructuring & Reallocation
- III. Empowerment & Enablement - Capacity Building

4.1 Thrust I: Economic Democratisation - Fiscal Decentralisation

The Malaysian economy has increasingly become a bureaucratic behemoth dictated and run from the central federal government, with diminishing roles of the various state governments. Malaysian income and corporate tax revenues are all collected by the federal government and subsequently these revenues are reallocated to the various state government via constitutionally provided per capita grant, as well as other discretionary grant allocations.

The existing policy has resulted in major imbalances between the expenditure budget of the federal government vis-a-vis the respective state governments. For example, in 1990, the combined state expenditure budgets added to 25% of the overall Federal government expenditure. This proportion has declined substantially over the past 20 years to less than 9% in 2007.

Such centralised and discretionary policy decision making may also result in imbalances between the various state governments. For example, the allocation to respective states is based solely on the whims and fancies of the central government which will result in certain states enjoying unequivocally larger allocations, while other states enjoy substantially less from their fair share.

As a result, economic and government policy implementation has become substantially less efficient and effective due to the bureaucratic nature of transfers from the federal government to actual local development. Centralised planning has also the clear weakness of poor decisions arising from weak understanding of the local development needs and circumstances. For example, a highly centralised Transport Ministry will not be able to make informed and effective public transportation policies for each township and city across the entire country.

Therefore, in order to improve the government delivery system, its efficiencies and effectiveness of expenditure, the implementation of a wide-array of economic and developmental policies is best left to individual states to decide according to their own priorities, preferences and unique situations. Enlightened, accountable local government on-the-ground is best placed to

determine and execute socio-economic strategies. Sectors which will enjoy increased fiscal decentralisation proposed here will include the transportation and internal security.

The DAP proposal for “economic democratisation” via increased fiscal decentralisation marks a tectonic shift in the Malaysian economic framework which will trigger an explosive boost to economic efficiency and productivity due to greater effectiveness in per ringgit expenditure as well as higher multiplier effects for government expenditure on the economy. Fiscal decentralisation will also ensure more balanced regional development as opposed to highly centralised development in selected regions such as the Klang Valley, and thus creating more developed and economically productive secondary cities through out the entire country.

To complement the move for economic democratisation via fiscal decentralisation, DAP will move for complementary local government elections with amendments to the federal constitution, and for sharing more fiscal power with state governments. This will ensure that the greater fiscal allocations to and the utilisation by the local authorities and state governments will remain fully transparent and accounted for by democratically elected and competent representatives.

4.2 Thrust II: Rakyat First - Restructuring & Reallocation

Years of weak and misdirected policies, as well as abuse by the existing government have resulted in institutionalised misallocation of Malaysia's scarce resources which has concentrated the benefits to the few who are politically connected, while marginalising the vast population where the help and resources are much required. Malaysia's decades long fling with the New Economic Policy (NEP) which emphasizes almost exclusively on “race” at the expense of “needs” and “merit”, have resulted in major structural deficiencies in our economic system which penalises both the welfare of the people and the efficiency of our economy. On the other hand, the institutionalised misallocation has enriched the select few who are able to exploit the misguided NEP. A major concerted effort to restructure and reallocate our economy is hence required to ensure more balanced development between the rich and poor, as well as fostering greater economic efficiency and competitiveness.

As part of the restructuring and reallocation thrust, there will be dedicated efforts towards proper implementation of an efficient welfare system is required to help ensure those born into poverty are not trapped in a vicious cycle. The emphasis will strictly based on needs, and not on “race” as dictated in the NEP. Those specifically belonging to any race which are economically weaker as a whole will by definition receive the appropriate aid from the Government. On the other hand, those who are well-endowed and economically productive will not deserve assistance under welfare programmes regardless of race. The DAP strategy will include reallocation - direct handouts to the hard-core poor and elderly - and capacity building - improvements in education, transport and healthcare that will facilitate individuals working their way up the income ladder.

The DAP Budget 2010 also instills accountability and equitability in the distribution of the nation's oil wealth. Malaysia has been blessed with rich petroleum resources which has generated huge income streams for the Malaysian government via the collection of income taxes, royalty, dividends and other taxes and fees. However, despite the lucrative returns from the oil and gas industry over the past decade, every single sen of earnings from this windfall has not only been spent, but with added debt on top. For 12 consecutive years, despite sky-rocketing global oil prices, Malaysia has no reserves or surplus to show from our oil wealth. The DAP seeks to restructure and reallocate our oil wealth, to ensure that it will be invested with the aim of creating a perpetual income stream that will flow even after the oil stops flowing through saving for the future economic downtime, strategic investment in building new capabilities such as renewable energy and green technology, as well as development of human capacities.

At the same time, DAP also seeks to restructure the lopsided concessions created since the 1990s under Mahathir's "Malaysia, Inc" major privatisation programmes. These massive concessions which enriched a few, and drains the nation of its wealth, continue to strain the nation financially and compromise the country's ability to compete effectively in the global marketplace. These contracts, especially ones concerning Independent Power Producers (IPPs), tolled highways and water concessions should never have been handed out to begin with, as politically-connected concessionaires have reaped grotesque amounts of profit at the expense of hardworking, ordinary Malaysians.

4.3 Thrust III: Empowerment & Enablement – Economic Capacity Building

Finally, DAP recognises the development and retention of talent as a critical necessity for Malaysia to expand into high value industries. In addition, to restore Malaysia's attractiveness as an investment destination, a range of concerted measures will be taken in the areas of education, healthcare, transportation, finance, technology, security, energy and environment in enhancing our regional and global competitiveness.

The weakening global competitiveness of Malaysia is real. The Government's continued basking on past glories will only result in irreparable damage to our economy and national competitiveness. However, if we instill in our economy the spirit of resilience as well as the ethics of competition, hard work and innovation, Malaysia will be better positioned to reap the full potential of global economic growth. DAP seeks to revive the fierce competitive spirit of the Malaysian economy, complemented by increased competency, greater accountability and improved transparency.

5 Key Policy Highlights

Based on the 3 key thrusts outlined above to achieve greater economic democratisation via fiscal decentralisation, to place *rakyat* first with restructuring and reallocation, and to empower Malaysians through economic capacity building, the key policy measures proposed include:

1. **Tax revenue sharing agreements** where 20% of individual and corporate income taxes collected in a state will become the state's entitlement. For Selangor and Penang, this revenue sharing agreement would entitle them to approximately RM 3.2 billion and RM 500 million respectively. An **equalisation and development grants** formula based on a function of population, poverty, area development, cost, human development and gross revenue per capita indices will also be given to ensure that poorer states do not lose out.
2. States will be given the **rights to borrow** up to a maximum of 50% of their annual own-source revenue, which is revenue raised directly by the state governments.
3. We will set up a fund of **RM 400 million** to provide grants to state governments to reinstate **local council elections**, conduct delineation studies, hold trainings and promote awareness via publicity and education campaigns after amending the Housing & Local Government Act.
4. Authority over the design and administration of public transport networks will be devolved to states. Every city will have a Transport Authority under the oversight of the local city council; for smaller towns and suburbs, they would be grouped together under the control of the State-wide Transport Authority. In the Klang Valley, which is too interconnected for public transport management to be left to a single state or local council, the DAP proposes to create the **Klang Valley Transport Authority (KVTA)**.
5. Under this system of **devolved transport expenditure**, RM 13 billion is budgeted for public transport in 2010, and will be distributed to the individual states based on population and vehicle density. **Limited competition and Gross-cost route contracts** will also be implemented to allow the transport authority to prioritise stability and connectivity while seeking cost efficiency. Under this system, the network and design is determined by the transport authority, while the operator selected via a open and competitive tender.
6. RM750 million in 2010 to **eradicate hardcore poverty** in Malaysia within 5 years, RM500 million for **Social Safety Net** for those living below the higher and revised Poverty Line Income (PLI), RM 500 million for **development of human capital** of poor families and RM 3 billion for the **development of basic amenities** in rural areas and East Malaysia.
7. RM1.07 billion will be allocated for the **Senior Malaysian Bonus**. Up to RM3,000 will be channeled into EPF account of a working adult at the end of the year and will be available for immediate withdrawal if the personal income is less than RM3,000 per month under the **FairWage Programme**. RM 1500 will be given to a homemaker (non-working spouse of a working adult) whose spouse income is not more than RM3,000.

8. To assist the Malaysians cope with the rise in living expenses, particularly in urban areas, we propose 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%. In addition, we propose that the top tier of the income tax bracket be raised from RM 150,000 chargeable income currently to RM300,000.
9. **Legislate the use of surplus oil and gas revenue** where at least 20% of the surplus payment will be channelled to Khazanah Nasional for new capacities and capabilities building in key areas such as Renewable Energy and Energy Efficiency (RE&EE), and Green Technology, at least 20% of the surplus payment will be deposited at a new **National Stimulus Fund** that boosts fiscal spending and provides financial assistance to all Rakyat during economic downturns under the new **Malaysia Reversed Bonus** scheme and Special Risk-sharing Initiative (SRI) and at least 20% of the surplus payment will be invested in building human capacity, particularly in Education and Training, above and beyond their normal budget allocation.
10. An off-budget RM25 billion is allocated to **buy back the PLUS Expressways** as well as other highway toll concessionaires with abnormal levels of profitability which does not commensurate with the risk and capital invested. The buy-back will be in accordance to the terms and conditions specified in the concession agreements. A new “**Unfair Contracts Act**” will also be established to ensure transparency and legitimacy of the process, as well as to review other lopsided government concessions such as the Independent Power Producers, the privatised water concessionaires, hospital management services, privatisation of the Government Medical Store and foreign worker medical tests.
11. To build a real **world class learning environment** for our young Malaysians and students, a sum of RM43.3 billion is allocated for education and training, accounting for 23.8% of the overall 2010 Budget. At the same time, development expenditure will increase most significantly with RM13.69 billion over RM10.07 billion boosted by the legislated 20% of surplus payments amounting to RM4 billion from PETRONAS earnings.
12. The existing **JPA undergraduate overseas scholarship scheme** into two tiers RM60 million is allocated for scholarships to all top SPM students for pre-university studies without conditions for more than 4,000 students, up from the existing 1,500 students, while RM500 million is allocated for at least 1,000 pre-university students who have secured places at top universities overseas. Additionally, RM200 million will be allocated to top pre-university students from poorer background.
13. To better position our SMEs in the face of changing economic environment, the DAP proposes to mandate the state governments with autonomy and resources in developing thematic SME clusters. RM100 million is also allocated to facilitate and strengthening the collaborations of our universities, SMEs, public and private research centers and a RM250 million fund be set aside to act as seed funding for these new enterprises.
14. DAP will be proposing allocate RM50 million as a matching grant of up to RM 250 per household for the installation cost of security guards and CCTV for identified high risk neighbourhoods. RM25 million will also apply as a matching grant for the installation of CCTV for micro, small and medium private enterprises in high risk areas. The RELA regiment will also be disbanded and replaced by a Community Police team set up by the respective local council with a total budget of RM67 million.

6 Previous Malaysian Budgets

6.1 Escalating Fiscal Deficit

Malaysia has been running on fiscal deficits for 12 consecutive years since 1998. More importantly, the actual absolute deficit has ballooned 7 times from RM5.0 billion in 1998 to RM34.5 billion in 2008 (see Figure 2a). Although deficits are not necessarily bad, prudent and universally accepted principles of public expenditure suggest that governments should boost spending during economic slowdown to stimulate the growth of economy, while creating a surplus during economic boom times. However, Malaysia was running fiscal budget deficits even during the best of times. As a result, this leaves the Government little room to implement counter-cyclical pump-priming measures during economic downturn and crisis as per the one we face today.

Worse still, Malaysia has failed to capitalize on our strong inflow of revenue over the last few years, which is greatly boosted by our oil wealth, to equip our country with new capabilities and capacities to compete on a global arena. This is evident by the rapid-growing Operating Expenditure (OPEX) and the stagnating Development Expenditure (DEVEX) in recent years as shown in Figure 2b. Operational expenditure includes financial items such as rental, maintenance, emoluments, general supplies and services as well as other items such as compensation to toll concessionaires. In particular, the actual OPEX has swelled more than 130% from RM63.8bn in 2001 to RM151.0bn in 2008, while the actual DEVEX has only grown marginally from RM34.1bn to RM45.1bn or 32.6%, over the same period.

Figure 2a: 12 Years of Budget Deficits (1998 - 2009)

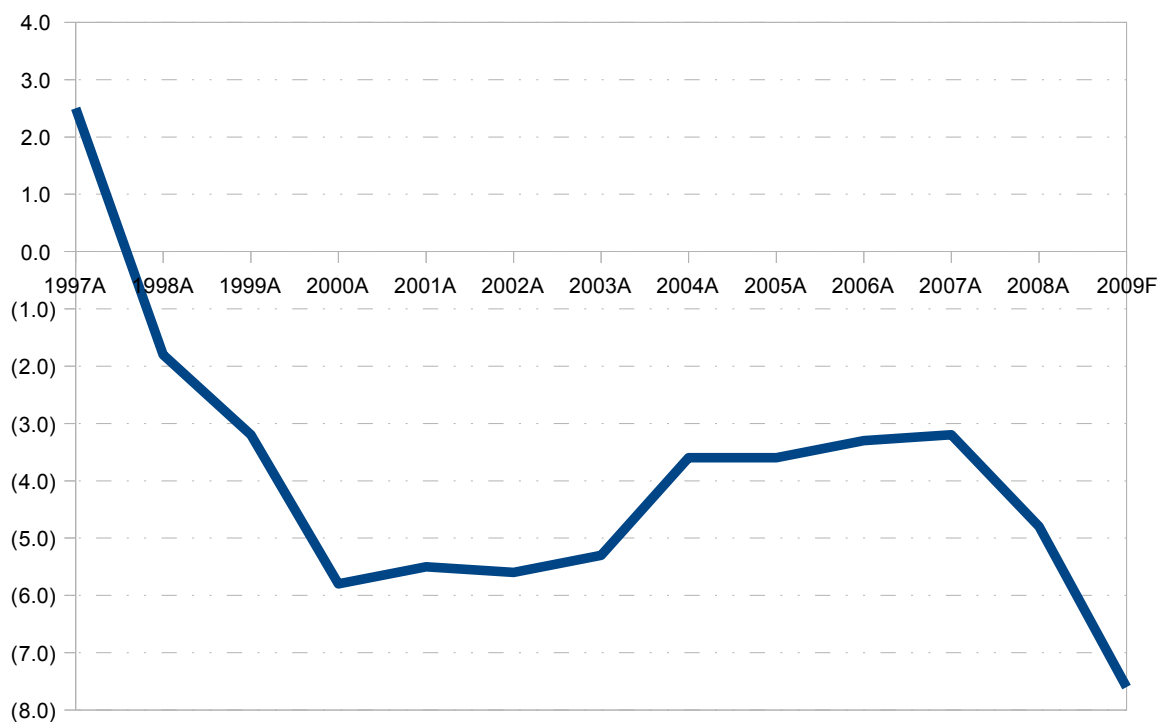
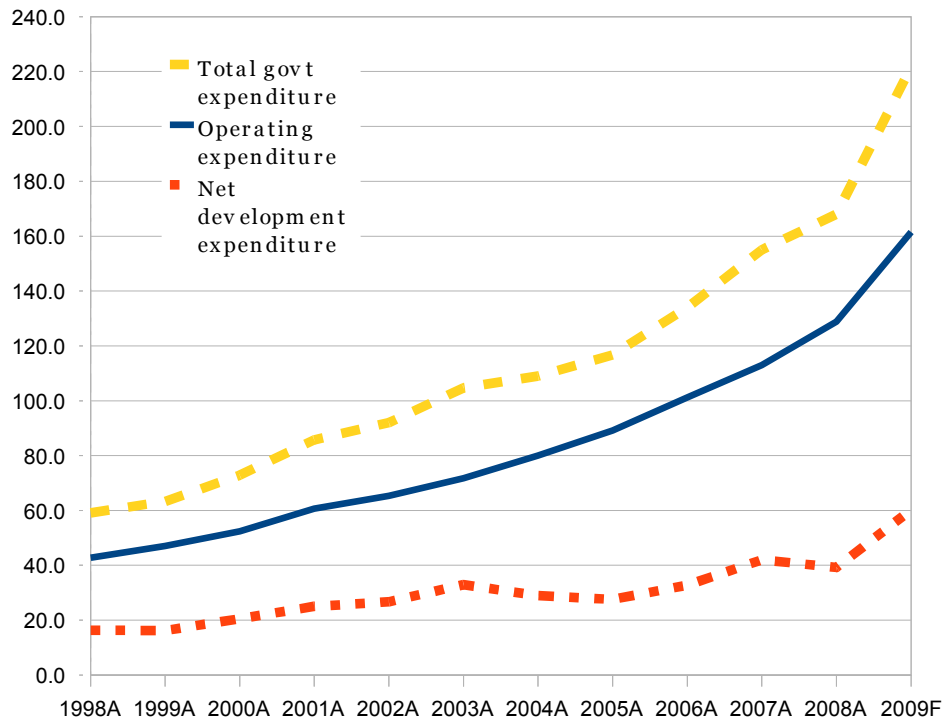


Figure 2b: Rapidly Increasing Operational Expenditure (1998-2009)



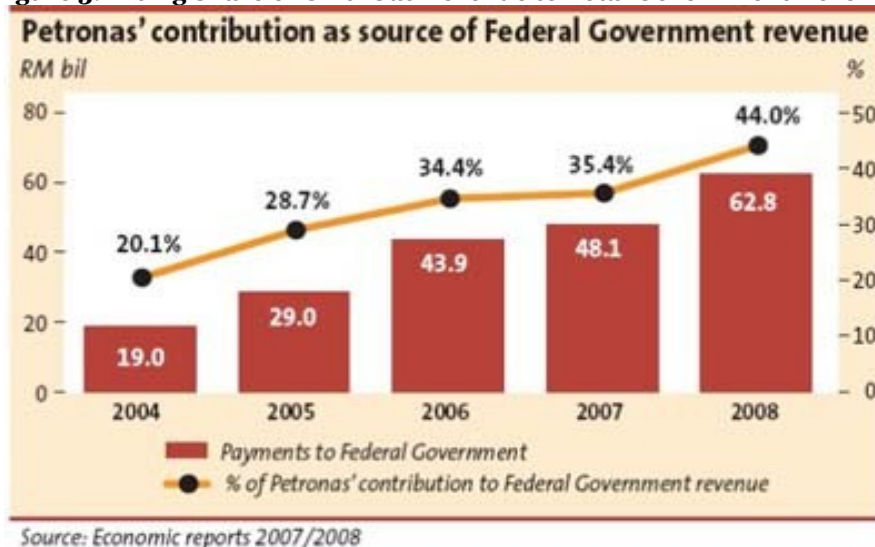
Source: Economic Reports, EPU

It is difficult to understand why the Government's operating expenditure has to increase by as much as RM53 billion or 52.4% in just 3 years from 2006 to 2009. OPEX has more than doubled since Datuk Seri Abdullah Ahmad Badawi took over as the prime minister in 2003. In fact, the proposed Government's operating expenditure in 2009 of RM154.2 billion has exceeded the entire Government's budget expenditure of RM136.8 billion by 12.7% just 3 years ago in 2006. These reckless increase in OPEX has resulted in unjustifiable increase in budget deficit in the last few years.

6.2 Escalating Reliance on Oil & Gas Revenue

The total Federal Government Revenue has increased steadily over the last decade. However, the breakdown of the source of revenue signals an alarming trend of over-reliance on oil and gas revenues for our economic growth. In particular, the Petroleum Income Tax (PITA) and Investment Income alone have accounted for 39% of the total government revenue in 2008, up from 17% in 1999 (See Figure 3).

Figure 3: Rising Share of Oil & Gas Revenue to Total Government Revenue



6.3 Accelerating Growth of Actual Operating Expenditure

In addition to the rapid increase of OPEX, of significant note is that the Government actual OPEX almost always exceeds the budgeted OPEX by more than 5%, suggesting very weak budgeting and a tendency by the Government to over-spend.

For example, the actual expenditure by the Government for 2004, 2005, 2006, 2007 and 2008 have exceeded the budgeted expenditure originally announced by the Finance Minister and approved by the Parliament by 14.08%, 9.65%, 6.44%, 5.21% and as high as 17.20% respectively. There should certainly be greater financial discipline with Government expenditure or it makes a complete mockery of the budgeting exercise conducted and put to waste all efforts in designing the budget for specific purposes.

Three main objects of OPEX that have the steepest increases are Emolument, Supplies and services, and Subsidies. Over the past ten years, our expenditure in Emolument has increased from RM 14.0 billion to RM 36.2 billion. Expenditure in Supplies and Services has increased about 400% from RM 5.2 billion in 1998 to RM 25.9 billion in 2008. In addition, there is an extraordinary increase in Subsidies, from 5.2 billion in 1998 to 25.9 billion in 2008.

These increases reflect that the Government has over the past decade failed to streamline our bloated civil service despite massive amounts of privatisation exercise which has been carried out since the late 1980s. Instead of a more gradual increase in the Government's wage bill in line of our inflation rates, our emoluments commitment has increased by 258.6% in the past decade, reflecting not only increase in civil service pay, but also substantial increase in the recruitment of civil servants.

Similarly, the increase in expenditure for the Government's "supplies and services" looks particularly brazen and no effort appears to have been made to check the drastic increase such expenditure. This increase is made purely possible over the past 5 years due to revenue collected as a result of high oil prices. It is clearly unsustainable and a major waste of the government's windfall revenue, for it would have been more economically productive to invest in development expenditure or saved as reserves for a rainy day.

7 Budget Allocation

For the fiscal year of 2010, we estimate a 16% decrease of Federal revenue, from RM 176 billion in 2009 to RM 148 billion in 2010. The decline in income for the Government will largely be attributed to lower tax collection as companies pay less tax and dividends due to shrinking profits in a year of economic downturn. The forecasted reduction in revenue is also due to the cap we proposed to be placed on the maximum share of PETRONAS Group profit to be contributed to the Federal government. The cap is proposed at 60% of net profits in 2010, and 50% in 2011.

In the proposed DAP budget, the Operating Expenditure (OPEX) will be cut by 17% from RM 154 billion to RM 127 billion. The Development Expenditure (DEVEX) will be increased by 8% from RM 50.5 billion to RM 54.6 billion. As a share of the total expenditure, DEVEX will increase from 27% in 2009 to 30% in 2010. Based on the proposed expenditures, we expect a total of RM 182 billion of government expenditure. This will result in a RM 38 billion budget deficit, equivalent to a reduced 5.66% of GDP.

Table 2: Overview of Federal Government Budget (RM billion)

	Average (01-06)	2007	2008	2009 (initial)	2009 (incl 2 nd stim)	DAP 2010	% change
Revenue	90.5	134.8	147.1	176.2	165.0	148	-16.0
Operating Expenditure	78.0	113.0	128.8	154.2	161.5	127.3	-17.4
<i>% of total expenditure</i>	<i>72.60%</i>	<i>72.9%</i>	<i>76.7%</i>	<i>75.3%</i>	<i>72.8%</i>	<i>70.0%</i>	
Net Dev Expenditure	29.0	42.0	39.2	50.5	60.2	54.6	8.2
<i>% of total expenditure</i>	<i>27.4%</i>	<i>27.1%</i>	<i>23.3%</i>	<i>24.7%</i>	<i>27.2%</i>	<i>30.0%</i>	
Total Govt Expenditure	107.0	155.0	168.0	204.7	221.7	182.0	-11.1
<i>Overall balance</i>	<i>-16.5</i>	<i>-20.2</i>	<i>-20.9</i>	<i>-28.5</i>	<i>-56.7</i>	<i>-38.0</i>	
<i>Surplus/Deficit (% of GDP)</i>	<i>-4.1</i>	<i>-3.4</i>	<i>-3.1</i>	<i>-3.6</i>	<i>-7.6</i>	<i>-5.7</i>	

Our Federal budget has been running deficits since 1998 and it is estimated to reach an unprecedented 7.6% in 2009. According to the latest data from Bank Negara, the total debt of our Federal Government currently stands at a whopping RM 317 billion,¹⁰ which is a 60% increase from the total debt level in 2005. This is coupled with a lack of fiscal discipline as our actual expenditures are consistently higher than the budgeted expenditures regardless of economic circumstances. The problem of our growing budget deficit is highlighted when Fitch Ratings cut Malaysia's long-term local-currency rating to single-A from single-A-plus in early 2009.

¹⁰ <http://www.bnm.gov.my/index.php?ch=111>

Our trend of consistent and growing fiscal deficits must be stemmed and reversed. The lack of fiscal discipline will cost our country dearly in the long run, especially when our revenue base from oil and gas is expected to be smaller in the future. Not only are our children forced to shoulder our debt, our consistent deficit spending will also lead to a reduction in private investments due to the “crowding out” effect.

As our economic growth is expected to recover to 3.8% in 2010, we aim to reduce the budget deficit with the goal of achieving budget surplus in year 2012 (*See Table 3*). Our long term budget objective is to maintain a balanced and responsible budget policy.

Table 3: Budget Deficit Projection

	Average (01-08)	2009	2010	2011	2012
Surplus/Deficit (% of GDP)	-3.9	-7.6	-5.7	-2.8	+0.2

We believe that the above targets are fully realisable on the basis of restructured Malaysian public finance, complemented with the policies to be implemented as per this budget proposal. The Malaysian economy must reduce its over-dependence on Government expenditure which is clearly unsustainable in the longer term, especially with a substantial portion of Government revenues originating from the oil and gas sector windfalls. In addition, by ensuring greater proportionate development expenditure relative to operational expenditure, we can expect much higher multiplier effects and impact on the economy, despite reduced deficits.

The detailed budget allocation of development expenditure to respective sectors, operational expenditure by objects are available in the Chapter 11 on Public Finance.

8 Thrust I: Economic Democratisation - Fiscal Decentralisation

8.1 Greater economic efficiency and political accountability

Many countries have pursued fiscal federalism and have devolved or are devolving more power to state and local governments. China and Indonesia's recent economic success has also been linked with the decentralisation of economic decision-making.¹¹ In the UK, the Calman Commission has recommended that Scotland be given greater tax-varying powers in order to further improve their devolution process.¹² This is largely because of the economic efficiency and accountability arguments.

Certain areas of expenditure responsibilities should be decentralised because states and local governments are better placed to tailor their programmes to local needs. For example, state governments are more likely than the central government to know their region's comparative advantage and hence promote investment initiatives accordingly. In order to decentralise expenditure, revenue must also be shared with states. Instead of being dependent on the federal government spending directly in the states, states would be able to implement their own programmes encouraging tourism, SMEs and industry. In this case, when the 13 states are unshackled in their courting of investment projects with their tailored policies, it is very likely that more and better investments will be attracted and made.

The stronger link between a state's work efforts and its revenue would also increase economic growth incentives for both public and private sectors. The public sector has greater motivation to increase their tax base and hence to promote and develop industry within their borders. There will also be healthy competition between states that will encourage greater efficiency in public service delivery and innovation in promoting development.

More importantly, the greater control states have over their revenue and expenditure and the states' development would allow voters to hold the state governments more accountable, instead of letting state governments blame their shortcomings on the federal government.

Existing imbalances between federal and state powers

Malaysia was created as a federation that guaranteed the rights of the member states. But in the past 50 years, political and financial power has been increasingly centralised at the federal level. Federal government revenue grew from 4.4 times the consolidated State government revenues in 1990 to 7.2 times in 1999 to 10.4 times in 2007. Federal government expenditure increased from 4 times the consolidated State government expenditure in 1990 to 7.8 times in 1999 to 12 times in 2007.¹³

Considering how consolidated State government revenue and expenditure is made up of 13 states, it is clear that public spending is highly dependent on the federal government. The federal government had a budget of more than RM 200 billion in 2009 whereas state budgets ranged from less than RM 200 million (Perlis) to just under RM 3 billion (Sabah).¹⁴

¹¹ Woo Wing Thye, "Overcoming the Obstacles to High Growth in Malaysia"

¹² "Calls for wider Scottish tax powers" The Sun. Jun 15, 2009. <http://www.sundaysun.co.uk/news/uk-world-news/2009/06/15/calls-for-wider-scottish-tax-powers-84229-23879014/>

¹³ Jomo K.S. and Wee Chong Hui, "The Political Economy of Malaysian Federalism: Economic Development, Public Policy and Conflict Containment" (November 2002); Economic Reports, various issues.

See Appendix for full table.

In addition, federal allocations to State governments have slowly shifted from grants to loans. Federal Government grants to the States decreased from 9.0% of its operating budget in 1975 to 3.2% in 1999 to 2.9% in 2008.¹⁵ Between 1975 and 1999, outstanding loans from the Federal government to the State governments also increased from RM1,107 million to over RM9,000 million.¹⁶

This imbalance in revenue flow and the federal government's shift from giving grants to loans has tightened federal control over states. Due to a lack of fiscal resources, State governments have gradually surrendered various functions to the federal government, thus allowing further centralisation.¹⁷

Direct federal grants to the states make up a small proportion of federal allocations to states. For example, Penang was allocated RM 1.2 billion in federal development expenditure in 2007 and only received RM 127 million in grants.¹⁸ This in turn means that the federal government has great influence over what goes on in each state and there is a lack of accountability by state governments to their voters for public spending in states.

Political abuse of discretionary federal power

Currently, the Constitution only guarantees capitation grants and grants to maintain state roads. However, despite amendments over the last half century to the sums guaranteed, the figures have not kept up with inflation. E.g. in 2007, Johor got RM41,049,159 or RM11.80 per capita under capitation grants, Selangor got RM67,661,987 or RM12.80 per capita, and Perlis got RM8,389,573 or RM34.10 per capita.¹⁹ The rest of the federal allocations to states, whether in the form of grants, project-specific or direct spending, are discretionary and entirely up to intra-BN negotiations or the whims of the federal government. Unfortunately, this distorts the state governments' incentives. Instead of working for the benefit of the people who elected them into power, state governments are beholden to whoever is in power at the federal government.

The politicizing of federal-state fiscal relations is clear when analysing allocations to Kelantan and Terengganu. These two states have been among the poorest and least developed in Malaysia. But during periods in which their state governments were controlled by opposition political parties, the rakyat were punished by smaller and delayed grants to the State governments.²⁰ Furthermore, when PAS formed the Terengganu State government in 1999, the federal government withheld the petroleum royalties due to the state and instead issued payments directly to villagers through ad hoc programmes. Thus, federalism in Malaysia can be characterized as "retractable"²¹: The rights of the states have been at the mercy of the federal government.

The centralisation of financial power and decision-making at the federal level may also have contributed to the biased focus on developing the Klang Valley. As a result, the development of secondary cities within Malaysia is deprioritized and this has resulted in excessive migration to

¹⁴ "Perlis MB tables five-pronged Budget 2009". Bernama. November 11, 2008; Sabah 2009 State Budget Speech: <http://www.sabah.gov.my/info/budget/2009StateBudgetSpeech.pdf>

¹⁵ 1975 figures are from Jomo K.S. and Wee Chong Hui, "The Political Economy of Malaysian Federalism: Economic Development, Public Policy and Conflict Containment" (November 2002); 1999 and 2008 figures are from various Economic Reports.

¹⁶ Jomo K.S. and Wee Chong Hui, "The Political Economy of Malaysian Federalism: Economic Development, Public Policy and Conflict Containment" (November 2002)

¹⁷ Jomo K.S. and Wee Chong Hui, "The Political Economy of Malaysian Federalism: Economic Development, Public Policy and Conflict Containment" (November 2002)

¹⁸ Reply to YAB Lim Guan Eng's oral question in Parliament. See Appendix for full table.

¹⁹ Federal Expenditure Estimate 2009 (*Anggaran Perbelanjaan Persekutuan 2009*)

See appendix: 9MP population estimates

²⁰ William Case, "Semi-Democracy and Minimalist Federalism in Malaysia", Chapter 6 in "Federalism in Asia" by Baogang He, Brian Galligan, Takashi Inoguchi.

²¹ Ibid.

the Klang Valley which further decelerate economic activities and progress of these cities. On the one hand, it has created immense stress on the infrastructure and its development in the Klang Valley, while on the other hand, for state capitals such as Ipoh and Kuala Terengganu which are designated as official “cities”, economic activities there remains focused on less sophisticated industries and a clear absence of high-end professional and financial services.

8.2 Fiscal decentralisation policies

Other countries, such as Canada, Spain, and the UK have been moving in the opposite direction recently compared to Malaysia, by increasing decentralisation. Nearer to home, China and Indonesia have also successfully decentralised much of their financial and economic decision-making process. Even smaller countries such as Switzerland and Belgium have developed forms of fiscal federalism. To ensure that Malaysia is able to tap into the sizeable latent potential benefits arising from the political accountability, economic efficiency and economic growth, DAP proposes that states are granted greater control over their finances.

8.2.1 Tax revenue sharing agreements

It is proposed that the federal government enter into tax revenue sharing agreements with states so that there is a stronger link between a state’s performance and its revenue share. 20% of individual and corporate income taxes collected in a state, as determined by the residence of the taxpayer and location of the establishment, will become the state’s entitlement. Income taxes will continue to be collected by the federal government using the existing infrastructure, but the states’ portion will be distributed back to the states for each financial year. This is the system which has been adopted by Germany.

For Selangor state, which contributes approximately RM 16 billion a year in income taxes²², this revenue sharing agreement would return RM 3.2 billion to state coffers, which is twice the size of their current budget. For Penang on the other hand, 20% of what an approximate RM 2.5 billion in income taxes would give them RM 500 million, which is larger than their current budget.²³

8.2.2 Equalisation and development grants

For the poorer states with smaller tax bases, equalisation grants will be given to meet their fiscal needs and make sure people benefit from similar levels of public services at a similar tax burden throughout the country. The formula for equalisation grants will be linked to the relative tax base in state compared to average tax base in country.

Development grants will also be given to less developed states to promote economic development and help them catch up. These grants will be formula-based to ensure that states and the rakyat get what they are entitled to, and that grants are not used for rewarding political support or obedience. The formula will likely be based on some measure of poverty rates and average income. These formulae will also be reviewed every 5 years to ensure their relevance. We will also review the amounts guaranteed in the capitation grant.

In Indonesia for example, the “Expenditure Needs” of each of its 434 districts and 32 provinces is a function of population, poverty, area development, cost, human development and gross revenue per capita indices. A formula-based equalisation and

²² “Selangor government considering new tax system to collect funds”. The Edge, July 13, 2009.

²³ Reply to YAB Lim Guan Eng’s oral question in Parliament; Penang State Budget 2009.

development grant will ensure greater predictability of grants and state finances, ensuring better long term planning by the respective state agencies.

8.2.3 Rights to borrow

Furthermore, it is proposed that states be given power to borrow from sources other than the federal government. States lost their right to borrow when they joined the Federation of Malaysia because the Constitution only allows borrowing from the federal government. But this need not be the case. Many other federations in the world, e.g. the US, Canada, Germany and Switzerland, allow states or provinces to have autonomous borrowing rights. This enables states to invest in infrastructure and development projects without needing to wait for federal approval and funds. Additionally, state governments would also be accountable to their creditors and thus have further pressure to invest wisely.

To ensure that the states utilise this new found right in a responsible and effective manner, restrictions will be put in place initially to ensure a managed transition. States can only borrow up to a maximum of 50% of their annual own-source revenue, which is revenue raised directly by the state governments and does not include federal grants or shared federal income tax revenue. The funds raised must be used for development expenditure and not operating expenditure. In the initial 3 years of introducing this measure, the federal government will guarantee only 30% of state debt to help states enter the borrowing market. The burden of scrutiny must however, be on the private sector lenders.

8.2.4 Increased state expenditure responsibilities

At the same time, we propose increase more spending power to states. States will be granted the responsibility to take charge of expenditure on areas such as public transport, amenities, utilities and social welfare, where the state government and local councils are better positioned to tailor responses to local needs. There will also be new responsibilities created such as the setting up of community police which will be given to the state for implementation.

States will have access to federal expertise at the Economic Planning Unit which will act as a co-ordinating agency, and various federal ministries to make sure they are able to use their new allocations most efficiently, and to prevent unnecessary and ineffective duplication of functions or investments.

8.3 Local government elections

Local governments are elected in most developed and democratic countries, including the US, the UK and Australia. There were also local government elections in Malaysia in the colonial times and the early years of independence. Local council elections were suspended in 1965 amidst the threat of the Indonesian Confrontation. Although the then Prime Minister, Tunku Abdul Rahman, promised to reinstate elections for this third level of government once peace was secured²⁴, local elections were abolished under the Local Government Act 1976. Central government powers are also exercised over local government through the National Council for Local Government (NCLG) set up under Article 95(A) of the Federal Constitution.

The consequences of having councillors that are appointed by State governments, which are themselves arguably subservient to the Federal government, are manifold. It reinforces centralisation, and allows undue central influence over issues that are best handled by local governments. Most importantly, there are no checks on inefficient or corrupt councillors. Since appointments to the local council are political rewards, councillors are more concerned with pleasing their political masters than with serving the residents.

There are many examples of inefficiencies and the lack of transparency and accountability in our local councils. For example, the questionable practice involving the “donation” of billboard licensing fees worth millions to the then MPPJ Football Club in 2006 was uncovered. In 2007, the Selayang Municipal Council spent RM240,000 on “Study Tours” to South Africa and Mauritius and RM40,000 on a “vacation meeting” in Genting whereas KL City Hall spent RM94,000 teaching its officers etiquette and grooming. In 2004, the Seberang Perai Municipal Council purchased RM1.5 million worth of flowers for 5 years.²⁵

The abuse of power and political interferences in our local councils can only be partially prevented by restoring local elections. The people must have the political freedom to elect local councillors that best represent their preferences, and to throw out officials that have been proven corrupt or incompetent. This is the only way to force local governments to be transparent, accountable and sensitive to local needs when spending ratepayers’ money.

Furthermore, local government elections can be seen as the bedrock of democracy because local governments are the closest to citizens. Therefore, local government elections are imperative to fully democratize governance in our country and permit citizen participation in the decision-making process.

Complemented with fiscal decentralisation, local council elections will bring about not only increased political democratisation in Malaysia, but also increased economic democratisation of states, local authorities and the people of Malaysia, as is the theme of the DAP Alternative Budget 2010. With greater fiscal responsibilities, state governments and local authorities require greater checks and balances to ensure that all expenditure made are fully accounted for, spent competently and are transparent for good governance.

Under the proposed DAP Budget for 2010, the federal government will set up a fund of **RM 400 million** to provide grants to state governments to reinstate local council elections after amending the Local Government Act 1976, conduct delineation studies, hold trainings and promote awareness via publicity and education campaigns. State governments that hold local elections will be reimbursed from this fund.²⁶

²⁴ <http://bibliotheca.limkitsiang.com/1973/07/20/hold-local-council-elections/>

²⁵ CPPS: Elections '08 Daily Policy Factsheet #7: http://www.cpps.org.my/resource_centre/Local%20Government.pdf

²⁶ Wong Chin Huat estimated that nationwide local council elections would cost under RM200million: <http://www.penangwatch.net/node/2838>

8.4 Public Transport

8.4.1 Current situation: Problems and Efforts

a Rising use of private vehicles

Urban congestion is now a major problem in Peninsula Malaysia. This has largely been caused by private car ownership increasing faster than the expansion of urban road networks over the last few decades. Malaysia has the 4th highest car ownership ratio in Asia Pacific after only New Zealand, South Korea and Australia. In 2006, 67% of persons aged above 18 years in Malaysia own a car. This is more than twice the rate of car ownership in Thailand, 3 times the rate in Singapore, and 5 times the rate in Philippines.²⁷

This problem has been particularly pronounced in Klang Valley, where car ownership per 1000 persons increased from 247 vehicles in 1990 to 994 vehicles in 2002 respectively, far beyond the national level per 1000 persons of 91 vehicles in 1990, and 210 vehicles in 2002.²⁸

This increased demand for private transport has been mainly driven by the lack of efficient public transport alternatives to cope with the accelerating demand in urban centres. To illustrate, the percentage of trips using private vehicles rose significantly from 47% in 1985 to 71% in 2005, while in the same period, the share of public transport dropped from 35% to 16%.²⁹

Furthermore, the cost of private driving has been distortedly cheap because of subsidised fuel. In the past, for political, financial and technical reasons, attempts to alleviate urban congestion have been biased towards capital-intensive road building and traffic management.³⁰ But building and expanding roads is not a sustainable long-term solution as we are already running out of space.

In addition to traffic congestion that costs Malaysia in lost productivity, the excessive use of motor vehicles has led to noise and atmospheric pollution, accidents, environmental decay and unsustainable energy use. Making public transport more convenient and efficient is imperative.

b Lack of investment in public transport

Part of the problem with our public transport system has been the lack of capital investment; we have preferred to spend our money on building more and more roads and highways. For example, the KTM Komuter, which was established in 1995, now only has about 36 train sets³¹ compared to its original 62 train sets. This is despite the fact that new stations have been added³² and passenger demand has tripled.³³

In the BN Federal Budget for 2009, Tun Abdullah Badawi promised to spend RM35 billion on improving public transport over a period of 6 years (2009-2014). While it

²⁷ 2006 Media Index study by The Nielsen Company: <http://my.nielsen.com/news/20070529.shtml>

²⁸ Fatima Kari and Rajah Rasiah "Automobile emissions and the environment: The Malaysian experience" http://www.idrc.ca/en/ev-132167-201-1-DO_TOPIC.html

²⁹ Ibid.

³⁰ Jamilah Mohamad, "Whither Transport Plans in Kuala Lumpur? Progress and Challenges in Urban Transport Planning" (1992)

³¹ "Increase In Komuter Units To Decrease Peak Hour Crowds By March 2009". Bernama. December 1, 2008. <http://www.bernama.com/bernama/v5/newsindex.php?id=375620>

³² New stations since 1995 include KL Sentral, Mid Valley, Kepong Sentral, Serendah, Rasa and Kuala Kubu Bharu.

³³ Darshini M. Nathan, "KTMB upgrades to be competitive". The Star Bizweek. October 6, 2007.

is uncertain how this sum is allocated, it averages out to just over RM5.83billion a year, or 1.1% of the 2008 GDP.³⁴ Compare this figure with Singapore, which already has a much better developed transport system and a much smaller geographical area. In 2008, Singapore spent \$3.149 billion, or the equivalent of 1.46% of their GDP on road and public transport infrastructure.³⁵ Hence, even RM35billion over 6 years, if it is truly and effectively allocated, is insufficient.

c Reliance on private sector

A product of depending on the private sector to fork up both the money and the expertise to plan and develop public transport in the country is that there is a lack of coordination between the different private companies and hence a lack of connectivity between the different modes of transportation. It was not until the separate LRT lines were taken over that an integrated fare system in the form of the Touch'n'Go was introduced and enforced.

Moreover, when private corporations have financed public transport investment, such as the Putra-LRT, the Star-LRT and the KL Monorail, the government has been forced to step in to bail them out when the corporations could not afford to repay their loans, resulting in much higher cost of investment by the Government.

d Lack of planning and accountability

There is also a lack of proper planning and accountability when it comes to development of public transport. A good example is the situation involving the Klang Sentral Terminal B. The Klang Municipal Council spent RM700,000 on the North Klang bus terminal only to shut it down after 2 years and force bus operators to move to the RM12million Klang Sentral terminal. Because of the location of the new bus terminal outside the town centre and the difference in rental costs, most bus operators have been reluctant to shift. Now only 9 months after it was first opened, the Klang Sentral Terminal B has been abandoned by most bus operators.³⁶ There must be an authority tasked specifically with integrated planning and implementation of public transport policy, and that takes into account the views of all stakeholders.

The lack of objectivity and adequate planning is also clear from the purchase of 20 locomotives from China in 2003 for a sum of RM220million. Despite the original quality assessment report's recommendation against the purchase, the government and KTMB continued with the purchase because of an agreement to trade 110,000 tonnes of palm oil with China. Because the trains were not made to KTMB's specifications, the cooling system of the engines was unsuitable for local weather, and the wheels are incompatible with the tracks and thus wear out much faster. By May 2008, only 5 of those locomotives were operational, and the rest had to be repaired and overhauled.³⁷

³⁴ In 2008, Malaysia's GDP (at constant 2000 prices) was RM528.8billion.

³⁵ In 2008, Singapore spent \$3.149 billion on road and public transport infrastructure and had a GDP (at constant 2000 prices) of \$233.4245 billion. <http://www.singstat.gov.sg/stats/themes/economy/hist/gdp1.html>
http://www.singaporebudget.gov.sg/expenditure_overview/mot.html

³⁶ "Klang folk are still upset over the relocation away from town". The Star. February 10, 2009.

"Klang's Terminal B closes after nine months". Malay Mail. August 4, 2009.

"RapidKL dumps RM12m Klang Sentral". The Star. April 22, 2009.

³⁷ Badrolhisham Bidin, K. Baradan And U-En Ng, "Ong orders immediate probe" Malay Mail. Manjit Kaur, "GMs should be held responsible, says railwaymen" The Star. May 9, 2008

"KTMB depot is for repairs". The Star. May 10, 2008

Ng Cheng Yee, "Probe into 'crocked' locomotives". The Star. December 18, 2008.

e Past achievements are not enough

Datuk Seri Najib Tun Razak recently announced, as part of his targets for the national Key Result Areas, that the Kelana Jaya LRT line is to get 35 new four-car train sets by 2012,³⁸ but it seems that this is the same 35 trains earlier promised and procured under the 2009 Budget that were expected to be fully operational by early 2010.³⁹ So not only is the federal target narrowly defined, it is an extension of the earlier deadline. This also reflects the lopsided development of transportation in Malaysia, with most of our funds focused in the Klang Valley area, and the neglect of our secondary cities.

While we support efforts to increase the capacity of the currently overcrowded rail systems, we think that on its own it is not enough. There are serious problems with the underlying structure of our public transport system. The DAP believes that in order to provide an efficient, reliable and integrated public transport system, the current system including the relevant governing and regulating authorities require a complete overhaul.

8.4.2 National Land Transportation Blueprint (NLTB)

Currently, 13 agencies handle public transport related issues.⁴⁰ The lack of harmonisation between the different agencies' functions is reflected in their disorganised policies. The DAP holds that land transportation should be viewed holistically since the different forms of transportation affect one another.

Therefore, it is proposed to create a National Land Transportation Commission (NLTC) under the Ministry of Transport that will formulate the National Land Transportation Blueprint (NLTB). The current agencies handling various transportation matters will either be merged into the NLTC or at the least, be subjected to the guidelines of the NLTB and the authority of the NLTC.

The NLTB will provide a national framework for public transport and road building and integrate development of different aspects of transportation, i.e. rail, bus, taxi, cycling and walking. It will also set user-friendliness, energy consumption and emissions guidelines and targets. Most importantly, the NLTB will set out the roles and responsibilities of the independent transport authorities that are to be created.

a Independent transport authorities

Authority over the design and administration of public transport networks will be devolved to states. Every city will have a Transport Authority under the oversight of the local city council; for smaller towns and suburbs, they would be grouped together under the control of the State-wide Transport Authority. This would, along with local council elections and greater transparency and consultations, allow representation in the decision-making process from the communities directly affected by the transportation system. Moreover, instead of the current uneven development, each area's transport development will hopefully better reflect their needs. However, all transportation plans should adhere to the national guidelines as laid out in the NLTB. Non-adherence will be penalized.

In the Klang Valley, which is too inter-connected for public transport management to be left to a single state or local council, the DAP proposes to create the Klang Valley Transport Authority (KVTA). The KVTA and other Federal or State

³⁸ "Najib sets targets for Government to meet". The Star. July 27, 2009. <http://thestar.com.my/news/story.asp?file=/2009/7/27/nation/20090727103556&sec=nation>

³⁹ Budget Speech 2009: "34. At the same time, 35 train carriages for the Kelana Jaya Line have been procured costing RM1.3 billion and these trains will be fully operational by early 2010."

⁴⁰ "Public transport: Too many cooks". The Star. February 3, 2009. <http://thestar.com.my/news/story.asp?file=/2009/2/3/nation/20090203191638&sec=nation>

transport authorities will work closely with the local governments controlling traffic management and parking in order to integrate management of urban mobility. This is akin to the Transport for London's partnerships with the local boroughs.

The board of directors controlling the KVTA will be appointed by the Menteri Besar of Selangor; similarly, members of the board at State-wide Transport Authorities will be appointed by the respective Menteri Besar or Chief Minister whereas at City Transport Authorities, the elected mayor will be in charge. To ensure the close cooperation between the transport authorities and the local governments, local councils will be represented at the board at the KVTA and other STAs.

b Disbursing transport funds

Under this system of devolved transport expenditure, **RM 13 billion** is budgeted for public transport in 2010, and will be distributed to the individual states based on population and vehicle density. Areas with greater population and vehicle density have a greater and more pressing need for public transport and hence, will get more funds. These funds will be disbursed to states in the form of specific purpose grants.

The transport authorities will have to fulfil certain KPIs as determined by the NLTB. These should include indicators based on accessibility, availability, reliability, safety and comfort. There will also be financial targets such as cost recovery ratios. These indicators will be examined annually and over a 5-year period, and the public will have access to these figures.

c Limited competition and Gross-cost route contracts

As part of the NTLB implementation, the DAP proposes a regime of limited competition under the NLTB, which an EU study concluded was the best model among the EU states.⁴¹ This regime allows the transport authority to prioritise stability and connectivity while seeking cost efficiency. The local transport authorities will control the design of the network and define the transport product that is to be delivered, although the actual design process can be outsourced to a professional team. The operators in charge for execution of the product will be determined via competitive and open tender.

Besides planning the network, the authority will own, and hence also fund, most necessary infrastructure including bus stops and terminals. The authority can then lease the infrastructure to operators. This will remove most barriers to entry for operators and prevent unnatural market concentration. The authority will also be the public face of the transport network.

Gross-cost route contracts⁴² that also set minimum standards for production resources and service-levels, as well as incentives for quality of service and levels of patronage will be implemented. In a gross-cost route contract, all revenue collected goes to the authority, and the authority pays the operator a fixed sum based on the amount or service provided, i.e. the number of kilometres and hours run. Clauses built into the contract will financially reward good performance by the operators and penalize bad performance. Bidders that can operate a given route for the lowest cost (including profit margin) will win the tender. In such a structure, risk is shared. The authority takes responsibility for commercial risk whereas operators bear productive risks.

⁴¹Results of the ISOTOPE project: http://www.eu-portal.net/material/materials/summary_kt1b.pdf

⁴² Route contract is when an authority issues a contract for the operation of one specified route or a specified group of routes; a gross-cost contract pays the operator a specified sum to provide a specified service for a specified period. All revenue collected is for the authority.

These contracts would be retendered every 5 years to ensure operating costs are kept low and are in line with current financial realities. Under such a contractual framework, local authorities can maintain control over the transportation network and hence policy goals can be achieved more easily. The authority can ensure integration between different modes of transport and that buses service all necessary areas. On loss-making routes, bidders that can operate for the lowest cost would win the tender. As the transport authority will also be in charge of setting fares and ensuring collection, they can also continue pursuing fare integration and introducing concessionary fares.

d Align development with public transport objectives

Local draft plans and development planning must be in line with public transport requirements. New housing developments will have to integrate the development of public transport, such as potential bus routes and location of bus stops, into their plans before they can be approved by the local authorities. Network design must also incorporate transportation hubs at strategic locations to best integrate local public transport.

e User-friendly public transport

To increase public transport utilisation rates, we need to make existing and future public transport systems user-friendly. As efficient as transport operations may be, it is pointless if people find them incomprehensible. As will be outlined in the NLTB, information regarding public transport, including information regarding routes, frequencies and interchange points, should be made widely and easily available. For example, signs and route information should be clearly visible at bus stops and LRT stations; the relevant operators' and transport authorities' websites should be further developed and frequently updated. Simple guides and pamphlets should be free while more complex bus route maps, for example, could be made available for purchase.

All future network designs, infrastructure building and equipments will need to take into account the needs of elderly and disabled commuters. LRT stations will be fitted with barrier-free facilities such as tactile guides, ramps and lifts to make them more accessible. Transportation hubs will have disabled-friendly toilets installed. All new buses must have ramps for wheelchair access or be low-floor and step-free. Accordingly, all bus stops should be compatible with these buses and wheelchair-friendly pavements leading up to the bus stops will be introduced. Existing facilities will be gradually converted to be accessible.

f Specific tasks and initiatives

Some specific tasks that the new KVTA will be expected to carry out include investigating and improving connectivity between different rail systems and feeder buses in Klang Valley. New rail lines or expansion of current lines could also be explored, such as the "Circle" LRT line to connect the suburbs of Petaling Jaya, Puchong, Sri Petaling, Cheras, Ampang, Setapak, Setapak, Gombak, Sentul and Kepong while bypassing the congested city centre. At the same time, new bus services routes will be tendered to operators to reduce the need for expensive rail expansions. Park n Ride initiatives will also be necessitated in new network designs. More parking areas will need to be designated near major LRT stations and transportation hubs.

Secondary cities should focus on developing an efficient bus transportation system. A bus system is likely to be more cost effective than a rail system because it does not require as large a number of passengers to reach critical mass.

Overall, the transportation sector will receive **RM13.047 billion** in development allocation, a 71.6% increase compared to the budget expenditure in 2009. This sizeable increase

in allocation demonstrates DAP's commitment towards a quantum leap in public transport infrastructure in Malaysia to trigger not only a better quality of living, but also a substantial boost in economic productivity in the country.

8.5 Community Police

The “Community Police” is a local security force that is set up by local councils. It is based upon a partnership between the police and the community whereby the police and the community share responsibility for identifying, reducing, eliminating and preventing problems that impact community safety and order. It will be made up of full-time, part-time or volunteer staff as well as retired police. It has been proven that Community Policing is effective in preventing crimes in the neighbourhoods.

This has been adopted by various cities in the world, for example UK Police Community Support Officer, US Community Oriented Policing Services and Vancouver Community Police. We will allocate funds to local authorities to start and administer the Community Policing projects. This will cost an estimate of **RM 542 Million**⁴³.

⁴³ Each of the 12 City Halls will be allocated RM10 million; Each of the 36 Municipal Councils will be allocated RM6 million; Each of the 96 District Councils will receive RM2 million; Each of the 7 modified local authorities will receive RM2 million. This amount to a total of RM542 million.

9 Thrust II: Rakyat First - Restructuring and Reallocation

9.1 Closing the Income Gap

Malaysia is considered a country with High Human Development⁴⁴ (63rd out of 179) according to the latest Human Development Report of UNDP. Generally speaking, countries with higher levels of human development have lower levels of inequality;

However for income distribution, Malaysia ranks one of the worst in Asia. Our Gini Coefficient⁴⁵ of 0.441 is ranked 99th out of 126 (higher Gini index means more inequality). Our inequality is comparable to sub-Saharan Africa countries such as Cameroon (0.446) and Nigeria (0.437). Our neighbours Thailand and Indonesia fare better than us in this aspect despite having lower Human development Index.

Table 4: HDI rank and Gini index by country⁴⁶

	HDI rank	Gini index
Norway	2	25.8
Germany	23	28.3
Indonesia	109	34.3
Singapore	28	42.5
Thailand	81	42
Nigeria	158	43.7
Malaysia	63	44.1
Cameroon	144	44.6
Papua New Guinea	145	50.9

The UNHDP Report also shows that the richest 10% in Malaysia control 38.4% of the economic income as compared to the poorest 10% who control only 1.7%.⁴⁷ This simply points to the fact the country's wealth is increasingly concentrated in the rich. Malaysia has Ferrari's biggest showroom outside Italy while there are still 45,000 hardcore poor families of Malaysians living on less than RM500/month.

A more efficient welfare system has to be put in place. Besides public provision for healthcare and education, some basic quality of life has to be provided for all citizens. This is especially pressing in this tough economic time. The DAP budget strives to ensure that poverty does not rob the citizens of Malaysia the opportunity to their well-being that they deserve.

DAP's proposed budget this year, as always, focuses not only the growth of our economy, but also a more equitable distribution of the fruit of success of our nation. The issue of inequality cannot be solved by racial-focused approach such as the New Economic Policy and the New

⁴⁴ The HDI provides a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy), being educated (measured by adult literacy and enrolment at the primary, secondary and tertiary level) and having a decent standard of living (measured by purchasing power parity, PPP, income).

⁴⁵ The Gini coefficient or index can range from 0 to 1 or 0 to 100%. A low Gini coefficient indicates a more equal distribution, with 0 corresponding to perfect equality, while higher Gini coefficients indicate more unequal distribution, with 1 or 100% corresponding to perfect inequality.

⁴⁶ Human Development Reports, United Nations Development Program; Malaysia Economic Reports

⁴⁷ http://en.wikipedia.org/wiki/Income_disparity_in_Malaysia

Vision Policy. In any case, as shown by our consistently high Gini Coefficients over the past 2 decades, the policy has exacerbated the issue of inequality as it shifts our attention and energy from the core problem of the issue. The prevailing discourse on the issue of poverty and inequality, filled with racial rhetoric, defeats all rational and reasoned debate and investigation into finding an effective and sustainable solution to eradicate poverty.

Those born into poverty are unable to avail themselves of opportunities available to the rest of society through no fault of their own - and thus it is incumbent upon our society to address this externality by making opportunities for education and self-advancement available to all.

Failure of poverty eradication programs of the government

The goal of the 9th Malaysian Plan (9MP) of the BN government is to eradicate hardcore poverty and halve overall poverty (to 2.8%) by the end of 2010. Government budgeted RM 11 billion for income distribution programs. However, only RM 4.5 billion or less than RM1 billion a year is allocated for poverty alleviation; RM 7 billion is for restructuring of society, focusing on reducing inter-ethnic income disparity.

Also, the Mid-Term Review of the Eighth Malaysia Plan makes no mention of individual inequality, except for reporting the Gini indices. No programs or policies have been developed or implemented to reduce overall inequality. Instead, the focus of discussion for income distribution is almost entirely in terms of ethnic inequalities, with passing reference to regional inequalities between states.

The eradication of poverty, regardless of races, should be the first item of agenda for the country. A dedicated effort to combat poverty will be highly conducive to the promotion of national unity, for poverty is a socio-economic phenomenon associated with those who are unemployed or underemployed, whose elimination must be strictly based on socio-economic considerations. Any attempt to justify poverty with race can only complicate the problem of the eradication of poverty and the retardation of national unity in the country.⁴⁸

9.1.1 Poverty Eradication

A more focused and concerted effort should hence be put in to uplift the vicious and deep-reaching roots of poverty, instead half-hearted ones which have been implemented in the past. In this budget, DAP plans will allocate **RM 5 billion**⁴⁹ for the year 2010 to eradicate hardcore poverty and alleviate general poverty. Also, we think it is imperative that we raise the Poverty Line Income (PLI) to accurately reflect the predicament of the people so we can adopt the right policies. Besides, we should not be obsessed with dealing merely with inter-ethnic income disparity, but should focus more attention and strategy on tackling regional income disparity and real income inequality. By reducing income inequality regardless of race, the issue of inter-ethnic income disparity will by extension automatically resolve itself.

a Revision of PLI

The Poverty Line Income (PLI) is defined, "...as an income sufficient to purchase a minimum basket of food to maintain household members in good nutritional health and other basic needs such as clothing and footwear, rent, fuel and power, transport and communications, healthcare, education and recreation." It was revised in 2004 with

⁴⁸ Lim Kit Siang, *Time Bombs in Malaysia*, page 102

⁴⁹ RM500 million for Social Safety Net; RM 500 million for development of human capital of poor families; RM 3 billion for the development of basic amenities in rural area and East Malaysia; RM 250 million for current government welfare service and policy; RM750 million to eradicate hardcore poverty

marginal changes, mainly to makes allowance for urban-rural and inter-state price variations in food and non-food prices. It also takes into account household size and demographic structure.

The average PLI for 2007 was RM720 in Peninsular Malaysia, RM960 in Sabah and RM830 in Sarawak. The food PLIs were RM430, RM540 and RM520, respectively. Different sets of PLIs were used for urban and rural area. Households whose incomes fall below the PLI income are considered living under Poverty. Households whose incomes fall below the food PLIs are considered living under Hardcore Poverty. However, there are fundamental problems with the PLI that have been recognized by academics and social workers.

Firstly, there is a great deal of doubt that RM 720, the PLI, is the difference between sustenance and poverty for a family of 5. In addition, it is hard to fathom that a family of five, anywhere in Malaysia being fed adequately on RM430 a month.

Secondly, there is effectively no difference between the urban and rural PLI. For instance, for Peninsula Malaysia in 2007, the urban poverty line is RM740 and the rural line is RM700⁵⁰. The marginal difference of RM 40 is incredible and inaccurate. Poor families in urban areas typically face higher difficulties due to various hidden costs of living in a city, such as tolls, bus fees, much higher cost of food and others which do not seem to have been taken into account in the PLI.

An unrealistically low PLI especially for urban areas means that many poor families are having extreme difficulties making ends meet yet they are unable to get help since they are not technically living under “poverty”, for instance with a meager income of RM 800 for a family of 6. This gives our politicians and policy-makers a highly (and wrongly) discounted glimpse into the real problem of poverty that grapples Malaysians.

Thirdly, according to the 9th MP, the Poverty Gap for the hardcore poor households in 2004 is 0.20%.⁵¹ The Poverty Gap refers to the total income shortfall (expressed in proportion to the poverty line) of poor households. If this statistics is true, it means that on average, each household is only RM 1 short from the hardcore poverty threshold (assuming it is RM 500). This figure is impossible, because it implies on the surface that a tiny sum of RM 45,000 a month will be sufficient to help all 45,000 hardcore poor households reach the hardcore poverty threshold. This grossly understates the severity of the hardcore poverty problem in Malaysia and distorts the emphasis and direction of any hardcore poverty eradication plan.

In 2004, a survey on a group of factory workers suggested that to survive, their households would require a monthly income of about RM1,750⁵² Also, in 2008, the Selangor State government also decided to raise the PLI in Selangor to RM 1,500 to depict the reality of poverty scenario in Selangor more accurately.⁵³ Based on DAP’s conservative calculations, the PLI and food PLI should be raised to the following levels:

	<i>PLI</i>	<i>Food PLI</i>
Urban	RM 1200	RM 750
Semi-Urban ⁵⁴	RM 1000	RM 650
Rural	RM 800	RM 550

⁵⁰ http://www.kpkt.gov.my/kpkt/fileupload/PENDAPATAN_GARIS_KEMISKINAN2007.pdf

⁵¹ Table 16-1, 9MP

⁵² Devaraj, Jeyakumar (2004). "Has Malaysia really eradicated poverty?". *Aliran Monthly* (2)

⁵³ <http://www.selangorkini.com.my/my/kenyataan-media/1768>

⁵⁴Semi-Urban regions include Ipoh, Kuantan, Muar and other cities. Urban regions include Klang Valley, Penang and JB.

The new proposed PLI means that 8.6% or more than 500,000 of the households in Malaysia live under poverty as compared to 3.6% that is tabulated by the government.

b Eradicating Hardcore Poverty

The Penang state government has implemented with great success the policy to “top up” a hardcore poor household's income to reach the food PLI to completely eradicate hardcore poverty within a year.

To extend the policy nationwide, the income of all households under hardcore poverty will be raised to reach the Food PLI level in the form of cash grant. With the higher food PLI of RM750, RM650 and RM550 for urban, semi-urban and rural households, the number of households classified as hardcore poor is expected to double to 90,000 households. The DAP proposed budget will allocate **RM750 million** in 2010 for this purpose as we seek to eradicate hardcore poverty in Malaysia within 5 years.

c Social Safety Net

In addition to the above grants for the hardcore poor, a social safety net needs to be created for all living under the PLI. For instance, most of the urban poor are self-employed. They work as taxi drivers, drain sweepers, maids, babysitters and they are not covered by EPF, Socso or medical insurance. Their social protection is non-existent.

The Poverty Line Income, by definition, is only sufficient for the basic sustenance of a household. A specific Social Safety Net fund will be set up and accessible by hardcore poor families to help them with outstanding financial needs outside daily sustenance such as medical, extra education and skill upgrading, accidents, new babies. The availability of this fund will also ensure that hardcore poor families have a final social safety net in times of emergency.

With the raised PLI, the number of households that are under poverty and qualify for help from government welfare benefits double to 500,000 households. This will require additional funding for the expanded network of social welfare provision. Overall, we will budget **RM500 million** for this purpose.

This measure is currently in place in most of the developed countries, such as in Singapore's ComCare scheme which received an allocation of S\$110 million in its 2009 budget despite Singapore's much smaller population, and smaller number of households living in poverty. Most developing countries also spend 1 to 2 percent of their GDP on safety nets.⁵⁵

d Developing Human Capital

Other than supplementing their income and helping them to have income-generating activities, we need to focus on cultivating human capital, especially to ensure real social mobility for the younger generation. To lift them out of the poverty trap, we need to ensure that they have two basic things: education and health. This includes free education, food stamps, giving free health supplements, free annual medical checkups etc. Most importantly, social workers will also be tapped to provide basic social services to targeted youths from hardcore poor families to ensure proper development of the younger generation. Since it is not practical for the Government to be able to reach out to all parties, the proposed alternative budget will encourage and give funds to more NGOs led by the civil society to reach out and rehabilitate those living in poverty.

⁵⁵ http://en.wikipedia.org/wiki/Social_safety_net

For this purpose, under an initiative called “Partners Against Poverty”, the Government will raise funds from private sectors and philanthropists to help combat the traps of poverty. Tax reduction will be given to participating business enterprises to encourage Corporate Social Responsibility.

This initiative will cost **RM500 Million**⁵⁶ a year. This program will focus specifically on cultivating the future generation of poor households. It will ensure that the children from the hardcore poor households and the households living in poverty will be given an equal opportunity to achieve success just as any other children from Malaysia.

e Basic Amenities

Rural electricity coverage in Sabah and in Sarawak is only 74.7% and 84.1% respectively in 2007⁵⁷, whereas rural water coverage is 65% in Sabah and 92% in Sarawak. At the same time, Sabah and Sarawak have the highest poverty and hardcore poverty rate in Malaysia. It is outrageous that Malaysians in East Malaysia do not even get access to basic amenities such as water and electricity.

Therefore, improving the infrastructure, in addition to building and repairing houses for the people in rural areas in Sabah and Sarawak, is not only long overdue, but a crucial first step towards reducing the income disparity between East and West Malaysia. The current Federal government’s efforts and political will in tackling this issue clearly leave much to be desired. DAP proposes that we double the current effort to achieve at least 95% electricity supply and piped water coverage to Sabah and Sarawak by 2012.

A total of RM 9 billion will be allocated for this project over 3 years. **RM 3 billion** will be allocated for the next fiscal year.⁵⁸

9.1.2 Payouts for the elderly (Senior Malaysian Bonus)

As responsible Malaysians and a considerate Government, it is very important for us to remember the contribution of our elderly population towards nation building. While we preach filial piety in our society, many of the senior citizens above the age of 60 in this country are finding it difficult to make ends meet.

The number of senior citizens (aged above 60) 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.

In a survey by the EPF recently, it was found that around 90% of members have less than RM100,000 in their accounts and more than 70% would have exhausted their money within three years of withdrawing the lump sum upon retirement.⁵⁹

To ensure that the dignity and wellbeing of our senior citizens are taken care of, DAP will put forward the Senior Malaysian Bonus. For a start, this shall be a two-tier program for Malaysians aged above 60.

⁵⁶ An estimate of RM 1000 spent on developing human capital per 507,069 households under poverty

⁵⁷ Mid-Term Review of 9th MP

⁵⁸ Najib administration plans to spend 6 billion in 3 years. To expand and accelerate the effort, DAP will budget 9 billion in total for a full water and electricity coverage in East Malaysia

⁵⁹ <http://thestar.com.my/news/story.asp?file=/2009/8/2/focus/4433715&sec=focus>

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 **RM1.07 billion** to administer.⁶⁰ 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.

9.1.3 Low-Income and the “FairWage” Initiative

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.

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 co-efficient statistics where by income disparity among Malaysians has widened substantially. Malaysia ranked highest in terms of income inequality in Southeast Asia.

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%.

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.

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.

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

⁶⁰ Assuming that 62.50% of senior citizens qualified, an estimated total of 1.33 million senior citizens will be provided with the bonuses. If half of them qualifies for RM 1000 bonus and another half qualifies for RM 600 bonus, the total cost of this program will be RM 1.07 million.

incentivise these workers to secure employment to avoid over-dependence on the state. Hence, DAP proposes “FairWage”, an integral component of our Budget 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.

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.

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.

“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.

In addition, **RM 1500** will be given to a homemaker (non-working spouse of a working adult) whose spouse income is not more than RM3,000 through the same mechanism to recognise the contributions of our homemakers who contribute immensely towards bringing up our future generations.

Since the bonus will be channeled into EPF account, to ensure that the poorest group of people will get their share of bonus, a budget of **MYR 10 Million** will be allocated to organise targeted and education campaigns to encourage these groups to sign up for an EPF account.

The FairWage scheme is expected to assist up to 12 million working Malaysians from the low-income group, costing up to **RM 21 billion** per annum⁶¹. 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. The FairWage Bonus scheme will ensure that all Malaysians in need are taken care of by the Government, the country's wealth is shared equitably and no community is left behind.

9.1.4 Personal Income Tax cut

To assist the Malaysians cope with the rise in living expenses, particularly in urban areas, we propose 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%. In addition, we propose that the top tier of the income tax bracket be raised from RM 150,000 chargeable income currently to RM300,000.

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 Appendix I.

⁶¹A total of 8.13 million workers and 3.8 million homemakers will benefit from FairWage. The average bonus is RM 1761.

9.2 Managing Oil Wealth

Over-reliance on Oil and Gas

Malaysia is 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, Petroliaam Nasional Berhad (PETRONAS). Since the incorporation of PETRONAS Group 35 years ago, the Group has paid RM471 billion to the Government, in addition to bearing a cumulative gas subsidy of RM97 billion.

In the most recent financial year ending March 2009, PETRONAS achieved profit before tax of RM89.1 billion amidst the challenging economic backdrop. Of greatest importance was the fact that PETRONAS contributed RM61.6 billion to our national coffers in taxes, royalties, dividends and export duties last year. Contribution from PETRONAS Group alone was budgeted to make up some 46% of the Federal Government revenue for 2008. This represents a steep increase from approximately 20% in 2004. The heavier reliance on oil and gas industry for Malaysia over the years signals an alarming trend.

Despite the fact that the total Malaysia hydrocarbon reserves has increased marginally from 20.13 billion barrels of oil equivalent (boe) at January 2008 to 20.18 billion boe at January 2009, and the reserves replacement ratio (RRR) has improved from 0.9 times to 1.1 times during the same period, our reserves will inevitably run dry at some point. During an interview with Bernama in June 2008, the president and chief executive officer of PETRONAS Group, Tan Sri Hassan Marican said that "we will continue to produce for another 20 years or so." In more immediate terms, "Malaysia will become a net importer when its domestic consumption, growing at six percent per annum, is expected to overtake national production in 2011."

Furthermore, increasing globalisation has intensified the competition among PETRONAS, oil majors and other national oil companies. This impact is particularly significant because international operations were both the Group's biggest revenue generator as well as its fastest growing segment for the last two consecutive years. 42.1% of the Group's revenue for FY2009 was derived from international operations, compared to 35.4% in FY2005. In order to maintain its competitive edge as a leading global oil player, it is crucial for the Group to channel its profit and investment to maintain the amount of extractable oil and gas reserves, to enhance its recovery ratio and to improve the reliability and productivity of its infrastructure.

However the Group's investment capability and long term sustainability might be undercut by the declining share of profit for reinvestment and rapid-growing total payments to the Governments. In particular, profit available for reinvestment by PETRONAS has dropped from 42.5% in FY2005 to only 21.1% in FY2009. In terms of absolute value, it has dropped from RM28 billion in FY2005 to RM21.9 billion in FY2009. In the meantime, share of PETRONAS Group profit allocated to the Federal Government has increased from 44.1% to 65.4% over the same period.

As a result, the total payments by PETRONAS to both the state and federal governments have ballooned from RM32.1 billion in FY2005 to RM74.0 billion in FY2009. The frightful acceleration of dependence on our limited oil and gas resources places the country's economy at great risks.

9.2.1 Capping PETRONAS profit contributions

To tackle the over-reliance on oil and gas revenue, the DAP proposes that the PETRONAS Group sets the target to pay not more than 50% of the Group profit before

tax, duties and royalties to the Federal Government from 2012 onwards. Through imposing this cap on the proportion of Group profit paid to the Federal Government, our nation would maintain the share of oil wealth to the Federal Government revenue at around 35%, which is coherent with the strategic goal of our nation to diversify its economy and revenue sources.

The cap imposed on the proportion of Group profit paid to the Federal Government would not compromise the fiscal strength in stimulating our national economy. The fact that Norway only derives approximately 30% of its national revenue from the petroleum industry despite its position as the third largest gas exporter globally provides an exemplary model for our nation to follow.

The cap would not only reverse the trend of over-reliance on exhaustible oil and gas resources, and hence catalyse the growth of other productive sectors of the economy, but also enable PETRONAS Group to boost its reinvestment ratio. The reserved profit endows PETRONAS with the flexibility and capacity to increase the share of profit reinvested to approximately 40% level. This will narrow the gap of reinvestment ratios among PETRONAS, oil majors, which reinvest 57.1% of their profits in average for FY2009, and other national oil companies, which channel an average of 72.9% of their profits for reinvestment in the same fiscal year.

Given the current challenging economic climate in Malaysia, the DAP understands the needs to stimulate and hasten our economy recovery through greater injection of our oil wealth. Therefore, the DAP proposes in this Budget that the PETRONAS Group channels 60% instead of 50% of the Group profit before tax, duties and royalties to the Federal Government for Budget 2010.

9.2.2 Optimizing Utilization of Oil Wealth

Malaysia's abundance of oil and gas resources is akin to striking lottery. Our nation must not fall into the trap of what economists call the "resource curse" in which countries devoid of natural resources fare better than countries better endowed. It is imperative for our nation to optimise its oil wealth, and utilise the resources in the best interests of the nation and the Rakyat. In light of this, the DAP proposes in this Budget that only a fixed value of RM30 billion, out of the total payment by PETRONAS to the Federal Government, will be channelled directly to the normal national budget. This figure shall be adjusted upwards in accordance to the country's inflation rate for subsequent years. Any surplus of the total contribution to the Government by PETRONAS shall be legislated as below:

- a. At least 20% of the surplus payment will be channelled to Khazanah Nasional for new capacities and capabilities building in key areas such as Renewable Energy and Energy Efficiency (RE&EE), and Green Technology
- b. At least 20% of the surplus payment will be deposited at a new National Stimulus Fund that boosts fiscal spending and provides financial assistance to all Rakyat during economic downtimes under the new Malaysia Reversed Bonus scheme and Special Risk-sharing Initiative (SRI)
- c. At least 20% of the surplus payment will be invested in building human capacity, particularly in Education and Training, above and beyond their normal budget allocation

As an example, PETRONAS Group profit before tax, duties and royalties is forecasted to be RM84 billion for 2010 Budget. Based on the DAP's proposal, RM50

billion (60% of RM84 billion) will be paid to the Federal Government. A fixed amount of RM30 billion out of the RM50 billion will be channeled directly to the normal national budget. The remaining amount of RM20 billion will be spent according to the proposed legislation, in which at least RM4 billion will be streamed each to Khazanah Nasional, National Stimulus Fund, and Human Capacity development (i.e. Education & Training) respectively.

9.2.3 Khazanah Nasional: Building New Capacities & Capabilities

a Adopting Best Practices of the Petroleum Fund of Norway

“Norway’s sensible approach to oil wealth management deserves the attention it has received in other resource-rich countries around the world.”⁶² The Petroleum Fund of Norway, which is derived from the surplus wealth produced by Norwegian petroleum income, provides a role model for our oil wealth management. This Norwegian fund has exceeded US\$388 billion by the end of 2007, which is equivalent to around US\$75,000 per Norwegian, up from US\$1,500 per Norwegian in 1996. Most importantly, the fund is driven by great transparency and trust, in which it distinguished itself from other sovereign wealth funds in the amount of information it makes public. Its performance and risk exposure are reported quarterly and its holdings in about 3,500 companies are detailed annually.⁶³

b Transforming Khazanah Nasional

Judging from the remarkable performance and high reputation of the Norwegian fund, there is a strong case for Malaysia to adopt the best practices of this open fund in the process of propelling our national economy forward. It is important for our nation to capitalise on the windfall revenues by building new capacities and capabilities. The DAP proposes to channel at least 20% of the surplus payment directly to Khazanah Nasional, the investment holding arm of our Government. For the 2010 budget this amounts to at least **RM4 billion**. The DAP perceives this mandate as an opportunity and strategic timing for Khazanah to transform itself into a world-class government investment arm that boasts a high level of transparency and professionalism.

Since its establishment, Khazanah has been empowered as the Government’s strategic investor in new industries and markets. Moreover, Khazanah is also tasked with nurturing the development of selected strategic industries in Malaysia with the aim of pursuing our nation’s long-term economic interests. Given Khazanah’s experience and expertise in promoting economic growth and making strategic investments on behalf of our Government, the DAP proposes to give Khazanah the mandate to utilise the allocated resources to equip our country with new capacities and capabilities, by investing in projects and companies in key areas such as Renewable Energy & Energy Efficiency (RE&EE), and Green Technology.

The focus areas will be reviewed every five years to enhance our global competitiveness. Through channelling our oil wealth into building new capacities and capabilities, the depletable revenue stream from our natural resources will be converted into a perpetual income flow. Consequently, Malaysia will be better prepared in optimising unexpected opportunities and facing uncertainties of future leadership.

⁶² Gylfason, Thorvaldur. Centre for Economic Policy Research. “Norway’s Wealth: Not just Oil” <http://www.voxeu.org/index.php?q=node/1199>

⁶³ New York Times “Norway provides model on how to manage oil revenue” http://www.nytimes.com/2007/10/17/business/worldbusiness/17iht-fund.4.7931109.html?_r=6

c *Expediting the Growth of Renewable Energy & Energy Efficiency*

RE&EE is identified as one of the key development areas for our new capacity and capability building. Against a backdrop of robust industrialization and development globally, the world energy demand has set on a rapid-growing trajectory. According to the Energy Information Administration (EIA), world energy consumption is projected to increase by 44% from 2006 to 2030. In the meantime, renewable energy is the fastest-growing source of world energy, with consumption increasing by 3% per year.

While an increasing number of advanced economies are gearing towards the use of renewable energy, Malaysia is seemed to be lagging behind the train of growth in this aspect. Based on the Ninth Malaysia Plan, the projected energy demand in 2010 for Malaysia will consist of 61.9% petroleum products, 15.8% natural gas, 18.9% electricity, and 3.4% coal & coke; the demand for renewable energy is negligible. Meanwhile, less than 3% of the energy supply will be derived from renewable energy. In view of this, it is essential for our country to boost investment in renewable energy and energy efficiency. Expediting the growth of renewable energy and energy efficiency will certainly help Malaysia to enhance its long term energy security and sustainable development.

d *Tapping into the Green Technology*

Another focus area is Green Technology. The new millennium has witnessed a surge of government investments in Green Initiatives around the world. The commitment and endeavor of South Korea in pushing the frontier of Green development is particularly noteworthy. The success of the USD900 million urban renewal project in restoring the Cheonggyecheon River has ignited a string of green innovations in the country. In 2009, South Korea has pledged to invest USD32.7 billion (approximately RM111 billion) in the “Green New Deal” over a four year period. In particular, South Korea will create low-carbon emitting railways, construct nationwide bicycle path, build dams, reservoirs and various water management facilities.

As part of the Green Technology programme, Khazanah will co-invest with the Selangor state government **RM2.5 billion** over 5 years to the urban renewal of the Klang River, to emulate the success of Cheonggyecheon River project in South Korea. The Klang River clean-up and rehabilitation project which will ultimately cost RM20 billion over 10 years, will enhance real-estate development along the river and land reserves, provide business to companies and jobs for the people as the river together with its many tributaries was over 250km long.⁶⁴

Along the global tide of Green development, Malaysia has the potential to build significant capacity and capability in Green Technology. Khazanah will channel the funding into appropriate Green Technology investment that can be leveraged on our national core competency. As an example, Malaysia can take advantage of its vigorous palm oil industry, which generates vast amount of palm biomass to develop a palm-oil-oriented recycling industry. This direction is coherent with the push for recycling and renewable industry in both South Korea and Hong Kong. For instance, South Korea is spurring its recycling and renewable industry, in particular through investment in facilities converting trash into fuels and bio-gas. Currently, 75% of renewable energy in South Korea is derived from waste. Similarly, Hong Kong is developing a regional high-tech recycling industry in the Pearl River Delta.

⁶⁴<http://www.theedgemaalaysia.com/political-news/1578-rm20b-to-clean-up-klang-river.html>

9.2.4 National Stimulus Fund

The National Trust Fund, or Kumpulan Wang Amanah Negara (KWAN), which was set up in 1988 under the Act 339 will be remodelled and substituted by the National Stimulus Fund.⁶⁵ This new fund will be established to drive fiscal spending and to provide financial assistance to all Rakyat during economic downturns when the GDP grows at levels below 2%. This fund will have a crucial role in stabilising revenues and helping all Rakyat to through economic hard times.

The DAP proposes to mandate the EPF as the manager and custodian of this newly established National Stimulus Fund. Guided by the clear mission of securing the continual prosperity and sustainability for our national economy, the EPF will channel this fund into stable long-term investments such as well managed funds.

In the years of booming economy and windfall revenues, the surplus payment from PETRONAS will be deposited in the National Stimulus Fund, which focuses on low risk investments with steady rate of return. This practice will not only better prepare our country for unforeseen circumstances and future uncertainties, but also prevent the scenario of overheating and overinflating our economy during good times. Based on the estimated revenue projections from PETRONAS, at least **RM4 billion** will be deposited into the National Stimulus Fund in 2010 based on the DAP Alternative Budget.

DAP believes that oil revenue windfall should be shared and enjoyed by all Rakyat in order to cultivate greater stewardship and to cherish the labour of all Rakyat. This sharing of wealth can best achieve its objectives by rendering financial assistance to all Rakyat directly during economy slowdown when our Rakyat need the support the most.

a Malaysia Reversed Bonus

Table 6: Malaysia Reversed Bonus for different Income Tiers

Estimated Monthly Income (RM)	Estimated Number of Workers ¹	Malaysia Reversed Bonus (RM)	Bonus Distributed (RM)
Working Rakyat:			
< RM2,000	6,319,152	900	5,687,236,800
< RM4,000, but > RM2,000	2,492,703	600	1,495,621,800
> RM4,000	2,358,945	300	707,683,500
Total	11,170,800		7,890,542,100
Homemaker:			
< RM2,000	3,814,552	900	3,433,096,586
Grand Total	14,985,352		11,323,638,686
Average (RM)			756

⁶⁵ KWAN receives RM100 million from PETRONAS accounts annually. According to a parliamentary answer, the fund is valued at approximately RM3.8 billion as of 31 December 2006. This remaining amount will be absorbed to the new National Stimulus Fund.

This financial assistance will be distributed under the Malaysia Reversed Bonus Scheme. Every working Rakyat and homemaker in Malaysia will be entitled to the Bonus varied according to their monthly income level on a progressive basis. The Bonus for different tiers of income is detailed in the Table 6 above. The Bonus will be available for immediate withdrawal among all working Rakyat and homemakers when GDP growth is below 2%.

Under the Malaysia Reversed Bonus scheme, approximately **RM11 billion** will be distributed to the Rakyat in combating economic downturns. The Rakyat will receive an average bonus of RM756. The Bonus distributed directly to the Rakyat via their EPF accounts to enable them to make sensible spending in easing their financial predicament with immediate effect, while spurring our economy out from the gloom at a greater pace.

b Special Risk-sharing Initiative (SRI)

To fully achieve the stimulus impact of our Fund, a Special Risk-sharing Initiative (SRI) similar to that proposed by Singapore in its 2009 budget will be launched in conjunction with the Malaysia Reversed Bonus. It is undeniable that banks tend to cut credit lines during a crisis, exacerbating the downturn as even good businesses have to curtail activities due to lack of financing.

To address this issue, our Government will share the risk of loans to SMEs should they turn sour. Under this SRI, banks will still be responsible for assessing credit and sourcing the customers, but our Government will share 50% of the risk of these loans. This initiative will improve banks' willingness to grant credit and hence alleviate the credit crunch faced by Malaysian SMEs. Assuming SMEs account for 25% of the total loans valued at RM130 billion and the unlikely event they all go sour, the total exposure of our Government will reach an estimated **RM16 billion** (RM130 x 25% x 50%).

Assuming the GDP of Malaysia is to grow at 3.8% in 2010 as projected, which is higher than the 2% proposed threshold that defines economic downturn, the Malaysia Reversed Bonus and SRI schemes will not be implemented for 2010 Budget. In fact, the 20% legislated surplus payment from PETRONAS that amount to RM4 billion for 2010 will be deposited directly into the National Stimulus Fund to be saved and invested for future disbursement. The new direct payment from PETRONAS, together with the estimated RM3.8 billion existing saving in the KWAN, will boost the reservoir of our National Stimulus Fund to at least RM8 billion.

9.2.5 Human Capacity Development

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 our Government expenditure at current levels. The most promising alternative source of revenue is encapsulated in building a strong base of human capital for our country. With the right quality of human capital, many countries around the world, which are deprived of natural resources, have recorded significant growth above and beyond what we have achieved.

In light of this, the DAP will legislate that at least 20% of the surplus payment from PETRONAS shall be allocated to enhancing human capacity, particularly in Education and Training, on top of their normal budget allocation. This will ensure that our windfall revenues will be productively invested in our most important assets, especially the young Malaysians. Based on the estimates of revenue from PETRONAS for

2010, at least **RM4 billion** will be additionally allocated towards projects involving human capital development.

The allocation will be spent to accelerate the process of revamping our educational system and elevating the quality of our Education and Training. We can model this spending after the Education Investment Fund of Australia, which provides significant capital investment in Australian higher education as well as vocational education and training. This Education Fund selectively finances innovative and transformative projects proposed by eligible education providers and research institutions that could help equip Australians with the high-level skills and knowledge necessary in an increasingly competitive global economy. Through proper implementation and execution of a similar programme, the declining quality of our education system can certainly be reversed.

9.2.6 Delivering State Oil Royalties as Legislated

To prevent any unlawful dismissal of state governments' claims on oil royalties and to protect the right of the Rakyat of the state, the state oil royalties will be paid directly to respective states based on the vesting deed agreement signed by the former PETRONAS chairman Tengku Razaleigh Hamzah, which "entitles the state to five per cent of any revenue derived from hydrocarbon deposits found on or offshore of the state."⁶⁶ Therefore, the state of Kelantan will receive its royalty as per the agreement signed on May 9, 1975 which amounts to approximately **RM250 million** per annum.

⁶⁶ The Malaysian Bar "Ku Li says Petronas must pay Kelantan oil royalties"
http://www.malaysianbar.org.my/legal/general_news/ku_li_says_petronas_must_pay_kelantan_oil_royalties_.html

9.3 Unfair Public Contracts

The Malaysian economic landscape is littered with many one-sided contracts and concessions under which private entrepreneurs reap supernormal profits while the government or government-linked companies continue to bear considerable business risk. Major privatisation exercises were conducted and concessions granted in manners that were not open, accountable and transparent through public tenders.

An Unfair Public Contracts Act will be enacted and an independent public commission to be known as the Public Contracts Commission will be formed to review such lopsided concessions that are deemed to be against the public interest.

Constitutional and corporate lawyer Tommy Thomas is of the view that such an act will be constitutional as it will be similar in nature to the Land Acquisition Act 1960 which allows the government to take over any private land for public purpose, provided adequate compensation is paid.

Such legislation is not unique to Malaysia. Eminent domain (United States of America), compulsory purchase (United Kingdom, New Zealand, Ireland), resumption/ compulsory acquisition (Australia) and expropriation (South Africa and Canada's common law system) are examples of the inherent power of the state to seize or expropriate private property without the owners's consent provided, of course, that due monetary compensation is paid. Eminent domain is not confined to real property. It also extends to franchises, copyrights, contract rights, trade secrets and patents.⁶⁷ Thomas argues that if private ownership of land is not sacrosanct, then neither should be highway and utility concessions.

The DAP, after examining the declassified highway toll concessions, concurs that many concessions are unduly lucrative at the public's expense. Also, the power purchase agreements (PPAs) the independent power producers (IPPs) have with TNB place undue financial and risk burdens on TNB. High transport and power costs are a burden and drag to economic growth. It is imperative that such inefficiencies be addressed for the good of the nation. The restructuring of these contracts are part of the overall economic reform needed for Malaysia to return to an equitable position for all Malaysians, and forms a critical element in the 2010 budget theme of "economic democratisation".

9.3.1 Independent Power Producers (IPPs)

The first IPP licences were granted following a nationwide blackout in 1992. Today, IPPs reap the lion's share of power sector profits while taking very little risks. Fuel costs are passed-through to Tenaga Nasional Berhad (TNB), the national power company.

In addition, TNB also takes on the demand risk. IPP profits are substantially unaffected by actual power demand due to the lop-sided nature of their power purchase agreements (PPAs) with TNB. In situations where power demand falls below expectations, or declines, TNB is still required to pay fixed capacity charges to IPPs and comply with 'take-or-pay' clauses in the contracts.

Former TNB chairman Tan Sri Ani Arope characterised the terms of the PPAs as 'grossly unfair', in an interview with Starbiz:

⁶⁷ http://en.wikipedia.org/wiki/Eminent_domain

“At 16 sen per unit (kWh) and with the take or pay situation, actually it was 23 sen per unit. With 23 sen, plus transmission and distribution costs, TNB would have had to charge the consumer no less than 30 sen per unit. If mixed with TNB’s cost, the cost would come down but that was at our expense because we were producing electricity at 8sen a unit. We can deliver electricity at 17 sen.”

There was undue government intervention in the PPA negotiations between TNB and the IPPs. As Tan Sri Ani said in the interview, *“There was no negotiation. Absolutely none. Instead of talking directly with the IPPs, TNB was sitting down with the EPU. And we were harassed, humiliated and talked down every time we went there.”*

It was well-known that when discussions between TNB and the IPPs reached an impasse over the allocation of risk, discussions would go offline to another level after which the parties involved would return to the table as if nothing had happened. Arope refused to sign the contracts and left TNB in 1996. Indeed, some IPP plants were even built on sites that TNB had identified and laid the ground work for, "but for mysterious reasons they were offered to IPPs".⁶⁸

The first 5 IPPs were guaranteed returns of 20% a year even though actual returns were much higher.⁶⁹ The DAP recognizes that in some cases, the original sponsors and owners of the IPPs had sold their plants and concessions at handsome profits to buyers who based their purchase prices on the basis that the lucrative PPAs would be honoured.

For example, Malakoff Berhad bought the license for the Tanjong Bin power station from a company linked to Tan Sri Syed Mokhtar for nearly RM1bn. It is Syed Mokhtar who reaped the supernormal profit from the IPP license. Most analysts estimate Malakoff’s returns on this investment in the low teens, after paying the premium to Syed Mokhtar.

There is no easy solution to this issue. On one hand, there is the principle of sanctity of contract, which the DAP fully supports. On the other hand, allowing the contract to perpetuate would inflict unfairly high costs on millions of Malaysians.

In this case, the DAP’s stance is that this injustice cannot be allowed to continue. The buyers must have realised how one-sided the contracts were and must have been aware of the risk that they may be renegotiated. As early as 1997-98 the government had sought to renegotiate the PPAs, less than 3 years after the very first IPPs came into operation.

Via the newly set up Public Contracts Commission, the DAP in the 2010 budget seeks to review the terms and conditions of all existing IPPs. Where the IPPs which are not amenable towards both reducing the electricity rates specified in the PPAs, and unwilling to share the risk of fuel price fluctuation, we will seek to expropriate these IPPs as per the terms specified in the concession agreements.

Gas subsidies

All PPAs have a fuel pass through clause in that hikes in oil prices are passed on to TNB. When these contracts were initially signed, the Electricity Tariff Control mechanism price formula = CPI - M + Y (Fuel Pass-Through = Y). However, in 1997, this mechanism was withdrawn and the price of gas supply was fixed at RM 6.40 mMBTU. Of course, this amount is much lower than gas prices in the global market. Subsidies were absorbed by PETRONAS.

⁶⁸ <http://ipsnews.net/news.asp?idnews=39630>

⁶⁹ The IPP Investment Experience in Malaysia by Jeff Rector

Over the years, IPPs have gained tremendously from the subsidies on top of the outrageous profits the already make. As a matter of fact, IPPs have received more gas subsidies than even TNB, RM35.7 million since 1997. That means almost 60% of all gas subsidies to the power sector have gone to IPPs.

Table 7: Gas subsidy allocation⁷⁰

Gas subsidy <i>Increasing subsidy due to higher volume and price</i>				
Gas subsidy	In RM bil			
	FY2008	% change	FY2007	Cumulative subsidy since 1997
POWER SECTOR	13.8	17.9%	11.7	62.6
- TNB	5.7		5.0	26.9
- Independent Power Producers (IPPs)	8.1		6.7	35.7
NON POWER SECTOR – including small industrial, commercial, residential users and NGV	5.9	51.3%	3.9	15.3
TOTAL GAS SUBSIDY	19.7	26.3%	15.6	77.9

Additionally, approximately 87% of our electricity is generated from non-renewable sources contributing to volatility in costs and tariff rates. Unlike IPPs who can pass on the increase in fuel costs when selling to TNB, tariff rates, the prices at which TNB sells to consumers are pre-determined by the cabinet.

The IPPs claim that they do not make any profit from increase in fuel costs since they retain the same margins. Nonetheless, despite being a business enterprise, IPPs do not take on little if none of the risk from oil price volatility. Instead, it is TNB's profits that are squeezed every time fuel prices skyrocket while IPPs get a free ride.

Very little investments have been made for the research and development (R&D) of renewable energies. And while this is usually a course of action pursued by the private sector as seen by the diversification efforts of most oil majors, Malaysian IPPs have absolutely no incentive to pursue the development of green technology.

As such, EPU Director of Infrastructure, Dato Dr Gan Kuan Poh had argued that “privatisation and liberalisation in the power generation sub-sector did not progress towards market driven efficiency gains in operations and investment or the efficient and effective allocation of resources”.⁷¹

Excess capacity

Malaysia currently has a reserve margin of about 47%. This means that we currently have a capacity 47% in excess of normal peak demand levels. Indeed, this is not only wasteful but costs of maintaining the additional capacity is ultimately passed on to consumers. Reserve margins usually need only be between 15 – 20%.

⁷⁰ <http://biz.thestar.com.my/news/story.asp?file=/2008/7/16/business/21835874&sec=business>

⁷¹ <http://www.st.gov.my/ecom/images/publication/%20gan%20kuan%20poh.pdf>

Table 8: Malaysia reserve margins⁷²

	2005	2006	2007	2008	2010(F)
TNB capacity	6,346	6,346	6,346	0	0
IPP installed capacity	11,277	11,977	13,377	0	0
Total capacity	17,623	18,323	19,723	21,652	23,802
Maximum Demand	12,493	12,990	13,620	14,007	15,602
Excess capacity	41.1%	41.1%	44.8%	54.6%	52.6%

Hence, not only are Malaysians paying a premium for energy from IPPs but we are paying a premium for energy that we do not need! Hence the political will to renegotiate these highly lopsided contracts are imperative, and where renegotiation fails, the IPPs must be expropriated.

9.3.2 Highway Toll Concessions

Highway toll concession contracts will similarly be reviewed and scrutinised by the Public Contracts Commission. For many of these concession contracts however, there already exist expropriation clauses which can be exercised, in the event that a fairer deal for Malaysians cannot be negotiated with the toll concessionaires.

As an example, assuming that toll rates are capped at RM1.60 and no traffic increase for the Lebuhraya Damansara-Puchong (LDP), it'll cost the Government an estimated RM1.54 billion in compensation alone between now and the end of the concession in 2029. This figure does not yet include the toll fees which are borne by the motorists which currently amounts to nearly RM300 million per annum, or RM6 billion for the next 20 years. In fact based on the operator for LDP, Litrak's public listing prospectus, they have anticipated to make RM18.7 billion in net profits after tax over the entire concession period, which is an exorbitant amount relative to the cost of capital including interest cost of only RM1.327 billion.

However, should the expropriation clause within the LDP agreement be exercised, it is estimated that the Government will only need to pay RM1.4 billion to buy back the LDP. Hence for the LDP after expropriation, toll rates can immediately be reduced to RM1.00 without incurring any further compensation by the government, and the toll collection period can be halved from 20 years remaining to only 10 years. After 10 years, toll may be abolished altogether or toll which is collected shall be channelled towards the National Public Transportation Fund to upgrade and promote the use of our public transport system. Besides the lower toll rates which will immediately benefit the motorists, the savings will also increase Malaysian's disposable income of up to RM4.5 billion over 20 years which will serve as a natural domestic spending stimulus for the Malaysian economy.

For the purposes of expropriating highway concessions which are generating extraordinary profits at the expense of the commuters, the DAP proposed Budget 2010 will allocate **RM10 billion** for the exercises. However, the fund shall be raised via

⁷²Report of Performance and Statistical Information 2006 & 2007 & Tenaga Quarterly Analyst Briefing Presentations

government bonds pledged against the cashflow from the highways which have been expropriated and hence it will not add any further stress on the Government's budget deficit.

North-South Expressway (PLUS)

However, not all toll concessions will have to be scrutinised by the Public Contracts Commission and be expropriated. For PLUS Expressways, which holds the most extensive network of toll highways, which is publicly listed on Bursa Malaysia, can be taken private.

This privatisation exercise will be at zero additional cost to the taxpayer. Currently the Government already owns approximately 63% of the shares of PLUS. The DAP budget proposes that the Government makes a General offer for PLUS for the remaining shares which it does not already own. It is budgeted that this will cost **RM15 billion**, including retiring outstanding loans amounting to RM8.5 billion which are taken by PLUS.

As per the LDP expropriation example above, the cost of this buy back can be covered via continuing toll collections at the *present* rates for another seven years. For example, a return KL-Penang journey will remain at RM86.60 today instead of RM115.30 in 2015 and RM168.80 by 2030. This move in itself will create up to RM14 billion toll expense savings for Malaysians from 2009-2015, thereby increasing consumer disposable income which will act as a stimulus for the domestic economy. This will be the amount saved either (i) by Malaysians using the highway because of no further toll rate increases or (ii) in terms of compensation which would have to be paid by the Government to PLUS Expressways.

In fact, should the Government decide to freeze the toll rates for PLUS today, but continue with the concession til 2038 when it expires, the Government will actually have to pay approximately RM68.3 billion in compensation to the concessionaire! Hence it is imperative that the Government exercise this buy back at the earliest possible time to ensure more effective use of Government taxes, greater equity and economic justice for Malaysians.

After 7 years, the Government can choose to abolish toll altogether, or collect only a nominal toll will be collected to finance maintenance and upgrading with excess collections contributed to the National Public Transport Fund.

The reduced toll rates and its subsequent abolition will substantially reduce the cost of doing business in Malaysia, increase logistical efficiencies and ultimately make Malaysian companies more globally competitive. Best of all, the plan will stimulate demand and make available substantial funds for public infrastructure development without the Government having to increase the precarious budget deficit further.

9.4

9.5 A Healthy Population, A Prosperous Nation

It is often said that the two biggest investments any country can make are education and healthcare. Undoubtedly, success in both sectors is pivotal for any sort of economic growth. In the long haul, both investments, under proper implementation, yield immense dividend, dividends that take a society from third world to first world on the development ladder.

In the latest United Nations Human Development Report, Malaysia ranked 63rd (out of 179 countries)⁷³ on the Human Development Index. Certainly, Malaysia has made tremendous leaps in healthcare standards. Our health adjusted life expectancy of 63 years is comparable to that of industrialized nations while our maternal mortality rates have decreased 10 fold from the days of independence, from 320 to 30 per 100000 births⁷⁴.

Nevertheless, we are no longer on the same trajectory. The lack of a definitive healthcare policy and the growing gap between public and private healthcare service providers underscores the present administration's indifference towards meeting the healthcare needs of Malaysians.

More money spent acquiring weapons than building hospitals

Healthcare spending in Malaysia constitutes 3.8% of our GDP. About 2.2% of that amount, equivalent to 6.9% of the Federal Budget is funded by the government. The private sector contributes the remaining 1.6%.⁷⁵ This allocation is of course suboptimal by WHO standards especially in the light of weak privatization models and the lack of transparency and competition in subcontracting.

Table 9: Per Capita Spend on Healthcare

Country	\$\$ per capita (RM)	% of GDP
USA	19971	13.9
Australia	10050	9.1
UK	8354	7.5
Japan	7847	7.8
Singapore	4043	3.3
South Korea	3756	5.6
Malaysia	1308	3.8

⁷³ United Nations Human Development Report 2007/2008, <http://hdr.undp.org/en/statistics>

⁷⁴ World Health Statistics 2009, <http://www.who.int/whosis/whostat/2009/en/index.html>

⁷⁵ Quek, David KL, (2009) Malaysian Healthcare System: A Review, <http://cpds.fep.um.edu.my/events/2009/workshop/29042009/PPT%20&%20full%20paper/session%203/The%20Malaysian%20Health%20Care%20System1-presentation-dr%20david%20quek.pdf>

In 2003, Malaysians spent just RM 1308 (USD 374) in total (Purchasing Power Parity adjusted) per person per year. As illustrated in Table 9,⁷⁶ this figure is well below the healthcare spending levels of many countries including Singapore and South Korea.

A brief comparison between spending on healthcare and defense (*see Table 10*)⁷⁷ shows that Malaysia spends more on developing our defense than on our healthcare system by more than 30%. In addition, Malaysia spends more on defense as % of GDP than countries like China, Japan, Germany, Thailand and Philippines. Malaysia also spends more on defense (in USD) than Sri Lanka, a country that until recently was engaged in a 30 year long civil war!⁷⁸

Table 10: Defense v Healthcare Expenditure

2009 Allocation	Defense (excluding Internal Security)	Health
Operating Expenditure	10, 651 m	11,453 m
Development Expenditure	3,014 m	2,308 m
Total expenditure	13, 665 m	13, 761 m
% of Federal Budget	7.1	7.4

Public-private disparity

Although the public sector provides healthcare for up to 85% of the population, according to the Malaysian Medical Association (MMA), it is served by just 45- 60% of all registered doctors and between 25-30% of specialists.⁷⁹ Of the 14000 doctors in the public sector, only 2000 are qualified specialists.⁸⁰

Up until the 1980s, the Malaysian healthcare industry was primarily government based. Nonetheless, the robust growth of private health care, while easing the government’s burden has definitely brought about much inequality to the healthcare industry. (*See Table 12*)⁸¹ The reality is patients in government hospitals have to endure an average waiting time of 4 to 5 hours⁸² for 2 minutes of consultation before being shifted from one waiting list to another for 6 months in order to be treated.

⁷⁶ Quek, David KL, (2009) Malaysian Healthcare System: A Review

⁷⁷ Malaysian Economic Report 2008/2009, http://www.treasury.gov.my/index.php?option=com_content&view=article&id=776%3Alaporan-ekonomi-20082009&catid=73%3Asenarai-laporan-ekonomi&Itemid=174&lang=en

⁷⁸ Wikipedia – List of countries by military expenditures, http://en.wikipedia.org/wiki/List_of_countries_by_military_expenditures

⁷⁹ Quek, David KL, (2009) Malaysian Healthcare System: A Review

⁸⁰ Hospitals to still depend on foreign doctors (NST 2008/12/12) <http://www.mma.org.my/Portals/0/Hospitals%20to%20still%20depend%20on%20foreign%20doctors.nst121208.pdf>

⁸¹ Ministry of Health website, 2008 Statistic – Health Facts, http://www.moh.gov.my/opencms/export/sites/default/moh/download/health_fact_2008_page_by_page.pdf

⁸² Study on Outpatients’ Waiting Time in Hospital Kebangsaan Malaysia (HUKM) Through the Six Sigma Approach, Mohamad Hanaffi Abdullah, http://www.statistics.gov.my/eng/images/stories/files/journalDOSM/V105_Article_Hanaffi.pdf

On top of that, at present only 53% of all positions in government hospitals for doctors are filled.⁸³ Despite government efforts at wooing Malaysians working overseas to work with the public sector, only 100 have returned.⁸⁴ Every year, about 300 doctors and 50 specialists leave the public service for the private sector⁸⁵ where they can earn up to 10 times their government income. In the meantime, key facilities including ICUs and operating theatres remain under-utilised⁸⁶.

Table 11: Public v Private Healthcare Comparison

	Public	Private
Hospitals	<150	>220
Capacity (beds)	38,000	12,000
Admissions	2.071 mil	0.754 mil
Outpatient	15.4 mil	2.46 mil
No. of doctors	15, 096	10,006
% of patients	84.5%	15.5%
% of doctors	60%	40%
% of specialists	25-30%	70-75%
Doctor : patient ratio	1:1157	06:21:00 AM

To cope with the chronic shortage of physicians, the MOH has turned to foreign doctors from countries like India, Indonesia, Pakistan, Myanmar and Bangladesh. Currently, about 700 doctors are hired on contract. Many of these doctors come from unrecognised universities and are sent to work in rural areas and even teaching hospitals like Universiti Sains Malaysia (USM) and Universiti Kebangsaan Malaysia (UKM) . They are given annual practicing certificates of up to 3 years without having to sit for any qualifying exam.⁸⁷ Even though, the government suspended the hiring of new foreign doctors in 2006 given that more than 110 had been dismissed for “lacklustre performance and dismal disciplinary records since 2002⁸⁸”, Deputy Health Minister, Dr Latiff has since reaffirmed that the government would continue hiring foreign doctors.

What probably exacerbates the problem is that more than 70% of specialist services (in radiotherapy, magnetic resonance imaging, CT scanning, mammography and cardio-thoracic treatment) were in the private sector⁸⁹. Another report shows that 14 out of 19 radiotherapy centres and 23 out of 29 clinical oncologists are in the private sector, selling their services to the government.

⁸³ The Sunday Star, Utar to offer students medical courses soon, 2009/8/9 <http://thestar.com.my/news/story.asp?file=/2009/8/9/nation/4487175&sec=nation>

⁸⁴ http://www.nst.com.my/Current_News/NST/articles/20090808193842/Article/index.html

⁸⁵ Quek, David KL, (2009) Malaysian Healthcare System: A Review

⁸⁶ <http://thestar.com.my/news/story.asp?file=/2009/8/9/nation/4487175&sec=nation>

⁸⁷ <http://thestar.com.my/news/story.asp?file=/2008/5/26/focus/21348524&sec=focus>

⁸⁸ http://www.redorbit.com/news/health/579804/malaysia_to_end_hiring_of_foreign_doctors/index.html

Table 12

Privatisation leakages

While healthcare in any country can be tricky to manoeuvre, the privatization of key support services in the Malaysian public healthcare system needs to be re-examined. Indeed, lucrative concessions that were handed out in the 1990s under closed negotiations have brought much wastage to the industry.

9.5.1 Privatisation of the Government Medical Store

In 1994, United Engineers (M) Bhd (UEM) was awarded the concession to privatise the Government Medical Store (GMS) through the Ministry of Health. The concession was novated to its subsidiary, Remedi (then known as Southern Task (M) Sdn Bhd.) Remedi then became a subsidiary company of Pharmaniaga Berhad, an investment holding company currently listed on Bursa. Pharmaniaga Logistics currently holds the 15 year concession to supply and distribute pharmaceutical and medical products to hospitals and medical institutions under the MOH. Pharmaniaga Bhd supplies to more than 900 government hospitals and derives 68.4% of its revenue from government contracts even though this figure was as high as 82.3% in 2003. In 1994, UEM was a subsidiary of conglomerate Renong which was a partially owned by Fleet Holdings, a company that had been used as an investment vehicle by UMNO.

Studies conducted by USM and University Sedaya show a drastic increase in drug prices post-privatization. A preliminary study revealed a 3.3 fold increase of drug prices without any significant improvement in efficiency of services. The USM study found a staggering 21513% overall increase in the price of anti-infectives a year after privatization.

Today Pharmaniaga has a monopoly over about 75% of the drugs distributed by government health facilities.⁹⁰ Pharmaceuticals currently take up 8% of the MOH budget.

9.5.2 Privatisation of hospital management services

Faber Mediserve Sdn Bhd currently has a 15 year concession in 78 hospitals covering the northern part of peninsular Malaysia, Sabah, Sarawak and Labuan up to October 2011. Its majority shareholder, Faber Health Care Management Services is a wholly owned subsidiary of Faber Group, which happens to be a 60% subsidiary of Renong Bhd. Tongkah Medivest (now known as Pantai Medivest) was part of a conglomeration of companies at the time owned by Mokhzani Mahathir, son of former PM, Dr Mahathir Mohamad.

Pantai Medivest currently holds a 15 year concession to provide support services to government hospitals in Negeri Sembilan, Melaka and Johor.

Radicare Sdn Bhd was offered the most lucrative contract which included servicing the two largest hospitals in the country. Radicare is owned by Realmild Sdn Bhd, an UMNO linked company.

⁸⁹ Chee, Heng Leng, Ownership, control, and contention: Challenges for the future of healthcare in Malaysia, Asia Research Institute, NUS

⁹⁰ EFFECT OF PRIVATIZATION OF GENERAL MEDICAL STORE ON PRICES OF ANTI-INFECTIVES IN MALAYSIA, Baber ZU1, Ibrahim M2, Bukhari NI1 1 University College Sedaya International, Kuala Lumpur, Malaysia 2 School of Pharmaceutical Sciences, University Sains Malaysia, Penang Malaysia

Despite much public dissent (among others by the Citizens' Health Initiative, Malaysian Medical Association and Malaysian Trade Union Congress), hospital support services such as cleaning linen, laundry, clinical waste management and biomedical engineering maintenance were divested in the 1990s. This exercise became the largest ever public healthcare concession in any country in the world.

Under the 1996 agreement, hospital support services were transferred to three separate private providers in a joint venture. Each consortium was awarded a monopoly in its particular geographical zone of responsibility. The concession is worth RM 10 billion over 15 years. From just RM 143 million in 1996, hospital management services amounted to RM 1.04 billion last year. *Cleaning services account for a whopping 14% of the MOH budget.⁹¹

9.5.3 Privatising regulation of hospital management services

Ironically, when privatizing hospital support services, the government somehow was unable to finalise regulatory arrangements hence this too was contracted out. The Health Minister at the time admitted that the MOH was unable to handle the task unless private consultants were used. Hence, Sistem Hospital Awsan Taraf (a private consultancy comprising Kejuruteraan Kota Aman, Paramount Merge and QSTD-SIHAT) were contracted to monitor new arrangements and assist MOH engineers in supervising the performance of the concession holders.

In 1996*, the DG of the Economic Planning Unit conceded that almost all regulatory bodies set up to oversee former public utilities were unable to function effectively. This was despite the fact that RM 60 million was paid over 5 years to ensure hospital management concessionaires complied with standards.

9.5.4 Botched Hospitals

Between 2003 and 2008, half a dozen new hospitals were built, each costing more than RM 350 million, with one reported to have cost near one billion ringgit. However, despite these huge expenses, which were in part due to turn-key B-O-T arrangements, facility or equipment maintenance and inconsistent expertise staffing remain mired in serious recurrent inadequacies. All this while Sime Darby's Subang Jaya Medical Centre (SJMC), a fully-equipped hospital, was on sale for negotiable RM 200 million.

a Kota Kinabalu's Queen Elizabeth Hospital, Sabah (October 2008)

Poor maintenance and planning led to infrastructure failure. ICU and surgical units were shut down. Several hundred patients were transferred out after three blocks were declared unsafe by engineers. It is learnt that the QEH management had reported the hospital's deteriorating conditions as early as 2000. The Health Ministry was supposed to carry out maintenance and repair work on the hospital from time to time through its concession company, Syarikat Faber Mediserve Sdn Bhd.

⁹¹ BARRACLOUGH, SIMON, *The Politics of Privatization in the Malaysian Health Care System*

b *Pekan Hospital, Pahang (June 2007)*

Scheduled for completion in 2003, the hospital was finally handed over to MOH in March 2007. Among defects found were leaking pipes, collapsed ceilings and problems with the main water tank.

c *Sultan Ismail Hospital, Johor (April 2007)*

In September 2004, the hospital which cost RM550 million was shut down for 17 months due to a fungus problem. 2 years later, large portions of the ceiling had to be removed due to structural inconsistencies. The company responsible for maintenance work at the hospital: Pantai Medinvest.

d *Sultanah Bahiyah Hospital, Alor Star, Kedah (March 2007)*

Built at a cost of RM550 million, the hospital was opened 4 years after its scheduled completion date. Health Minister, Chua Soi Lek admitted that the contractors lacked expertise.

e *Sultan Abdul Halim Hospital, Sungai Petani, Kedah (February 2007)*

Overflowing human faeces from a toilet forced temporary closure of an ICU unit at the state of the art hospital which cost RM450 million to build. A similar leakage had occurred in the hospital cafeteria due to a defective sewerage pipe. There were also collapse ceilings.

f *Ampang Hospital, Kuala Lumpur (March 2007)*

Scheduled for completion in 2004, the hospital only opened in 2007. The pediatric ward was fungus ridden, the ceiling were infested with fungi and the sewage pipes were leaking. Health Minister, Chua Soi Lek, said that glitches were to be expected in new buildings.

9.5.5 Privatising medical testing for foreign workers

In September 1997, Fomema Sd Bhd, a subsidiary of Pantai Holdings Bhd was awarded a 15 year monopoly for the medical examinations of foreign workers. The concession was handed out despite public opposition. Little explanation was given as to its rationale⁹².

When the contract was signed, Malaysia had about 1.7 million foreign workers equivalent to 15% of the labour force. This meant a RM315 million annual turnover for Fomema. And given Malaysia's growing dependence on foreign labour and increased enforcement on illegals, Fomema can expect to earn up to RM 1 billion annually by 2010 (estimated 5 million foreign workers). In fact, a look at Pantai's annual report shows that the company's profits nearly tripled between 2003 and 2005. As acknowledged even by Pantai chairman, Datuk Dr Ridzwan Bakar, the group has benefitted greatly from its two large government concessions, Fomema and Pantai Medinvest.

There has been much documentation on Fomema's inflated costs. The company currently charges between RM180 – RM190 for medical examinations even though private clinics pre-privatization only charged around RM120 – RM130. Even panel doctors are only paid RM60 per examination by Fomema. It has also been reported that

⁹² <http://www.limkitsiang.com/archive/1997/Oct97/sg660.htm>

Fomema has coerced laboratories into accepting discounted fees of as little as RM 25 per patient as opposed to previously agreed arrangements of RM 65-RM 75.

Furthermore, there has been much grouse about Fomema's ineffectiveness at detecting diseases and preventing them from entering the country. Even former High Court judge, Datuk Muhd Kamil Awang (Centre for Services and Counselling For Foreign Workers and House Maids (PPKPA) Malaysia Chairman) has called for an end to Fomema's monopoly. According to him, Fomema is only interested in doing initial and annual check-ups when health testing should be a continuous process⁹³. A random check in October 2005 on 4619 foreigners in Sabah found that 3014 (63%) of them had hepatitis, 334 (7.2) had tuberculosis and 369 (8%) had sexually transmitted diseases. ⁹⁴By failing to monitor its doctors and laboratories, Fomema puts the health of the entire nation at risk.

Manpower! Manpower! Manpower!

About 1500 medical students graduate from public universities every year and another 1500 from private institutions. Yet, retention of these young graduates in government hospitals remains low. Young doctors today are leaving the government almost immediately after completing their housemanship and compulsory service. Even senior doctors continue to leave, frustrated by heavy workloads, low wages and continued under-appreciation from the administration.

In mid 2006, the MOH launched a scheme encouraging doctors working abroad to return to Malaysia. Among the benefits offered were an "instant" pay rise of RM 4000 and exemption from compulsory service. Not only have these efforts been futile, they also send out contradictory messages. Only 100 doctors have returned from abroad to serve in the government. Instead, 300 doctors including 50 specialists leave the service annually.

The administration continues to spend a lot of money building state of the art facilities. In the 80s, 13 nucleus hospitals were built equipped with advanced technology in places like Sabak Bernam and Slim River at a cost RM 40 – 70 million each. Till today, there isn't a single resident specialist in Sabak Bernam. In the 90s, massive IT hospitals were built and yet almost no attention was given to the development of qualified health professionals. ⁹⁵ The Operation Theatres at the RM300 million Serdang Hospital, designed to be the reference centre for cardiology, cardiothoracic, urology and nephrology surgery in the country, have remained empty since they were opened in 2005. Health Minister Datuk Liow Tiong Lai said recently: "We don't have the experts. We don't have the manpower."⁹⁶

As part of the effort to increase and retain the number of doctors in the public service, the DAP alternative budget proposes that the pay scale of doctors be increased by 25% with additional allowance and benefits for a more conducive work environment. At the same time an independent Medical Professionals Remuneration Commission (MEPRECO) will be instituted to assess the remuneration scheme and benefits of our public sector healthcare professionals on an annual basis. Singapore has managed to keep most of their healthcare expertise by providing a special remuneration scheme and benefits which cuts down the disparity between the public sector physician and those of the private sector. As per the above statistics, the short-coming in the public health sector today isn't the lack of hospitals, beds or equipments, but the severe lack of qualified and dedicated doctors.

⁹³ <http://www.dailyexpress.com.my/print.cfm?NewsID=36269>

⁹⁴ http://www.harakahdaily.net/index.php?option=com_content&task=view&id=5530&Itemid=50

⁹⁵ Put public healthcare first, the Sun, 2006/12/14, <http://www.sun2surf.com/article.cfm?id=16409>

⁹⁶ <http://www.asiaone.com/News/Latest%2BNews/Health/Story/A1Story20080706-74901.html>

Corporatised, government-owned entities

Lastly, in order to increase the efficiency of public healthcare, major government hospitals will be corporatised into non-profit, government-owned institutions. The corporatized structure will allow shifts, particularly for curative medical care and some regulatory functions, to non-budgetary sources. It will also allow for flexibility. That way, hospitals can afford to pay their staff more as opposed to being bound to the pay scale applied to the entire civil service.

Institut Jantung Negara (IJN) is a good example of increased efficiency as a result of corporatisation. The IJN maintains 5 operating theatres and each operating theatre does 600 cases a year. That makes 3000 cases a year in total. MOH and MOE hospitals have 8 operating theatres for cardiac surgery alone and all operating theatres combined do 800 cases a year.⁹⁷ The salaries of IJN consultants are viewed on a different pay scale than that of the MOH. Also, IJN has an annual attrition rate of only 3%.⁹⁸

By corporatising hospitals, greater financial and management autonomy can be levied to the hospital's board of directors so as to encourage competition between government hospitals and with the private sector as well. Undeniably, higher salaries will help stem the outflow of doctors.

Review, Renegotiate or Terminate privatisation contracts

Given the remarkable failure of the privatisation of healthcare services in Malaysia since the 1990s, it is hence critical that the proposed Public Contracts Commission review the various privatisation concession contracts under the "Unfair Contracts Act". These contracts have all been awarded without any open tender, and were directly benefiting politically connected parties and individuals, many of whom had little experience in the healthcare industry.

The DAP Budget for 2010 shall commit to seeking revised terms and conditions for these contracts to ensure a minimum service quality level, subjecting the concessionaires to appropriate penalties for failing to fulfil obligations, as well as ensuring open, competitive and transparent tenders for all future contracts for building, services and supplies. Restructuring and reallocation in the Malaysian public healthcare services will ensure much improved quality of services at much lower cost than the Government. As a result, the poor and middle class who use the public hospitals will receive better, more efficient and effective treatments.

Information Integration

The integration of medical records should be increased especially between the various government health care facilities. The majority of records currently are paper records. Computerisation of these records will ensure that patient information can be easily extracted and will allow for greater crossover of services between the private and public sector. Undoubtedly, information exchange can be made more efficient through the use of a unified system of health information portability mechanisms, e.g. MyKad or some other central access information although compromising patient confidentiality and privacy must not be compromised.

Systems used by medical facilities should also be interoperable. Currently, when a patient is transferred between hospitals in Malaysia, his/her medical report will be sent together in hardcopy format. It is almost impossible to send the softcopy of the medical data for the patient because different hospitals seem to be using different types of Healthcare information systems and different kinds of data format. Good quality medical reports contribute greatly towards higher standards in healthcare and it is high time these reports are made accessible.⁹⁹

⁹⁷Undertake full improve health overhaul to care delivery, 2006/12/26 <http://www.thesundaily.com/article.cfm?id=16501>

⁹⁸ Statement from IJN medical consultants, 2008/12/19

The DAP proposed budget 2010 allocates **RM120 million** over 3 years to integrate healthcare information systems at the Malaysian hospitals.

Overall, to ensure that Malaysia's healthcare commitment is comparable to other countries such as South Korea, the DAP development budget allocation for the Healthcare sector is increased by 87% to **RM4.316 billion** compared the previous year 2009. This allocation forms 8.9% of the overall budgeted development expenditure. To cope with the increase in remuneration of medical professionals, the budgeted operational will also increase from RM11.45 billion in 2009 to **RM12.83 billion** in 2010.

⁹⁹ Storing health electronically by Dr Milton Lum, <http://thestar.com.my/health/story.asp?file=/2009/6/14/health/4091731&sec=health>

10 Thrust III: Empowerment & Enablement – Economic Capacity Building

10.1 Optimising Human Capital

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.

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.

In light of the above, the DAP will legislate that 20% of our surplus payments from PETRONAS 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.

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.

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 23.8% of the overall 2010 Budget.

Of this amount **RM40.68 billion** is allocated for operating expenditure, compared to RM37.67 billion in 2009. At the same time, development expenditure will increase most significantly with **RM13.69 billion** over RM10.07 billion boosted by the legislated 20% of surplus payments amounting to RM4 billion from PETRONAS earnings.

10.1.1 Strengthening the Foundation for Education

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 200 schools in 2010. For this, RM1.8 billion is allocated, based on RM9,000,000 per school.

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 former 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 an area of strength for the country.”

The number of Chinese primary schools has declined from 1,346 in 1970 to 1,291 today, despite the enrolment numbers more than doubling from 439,681 to 636,124. At the same time, Tamil primary schools have 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.

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.

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.

In addition, a special allocation of **RM2 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.

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.

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.

A study will also be conducted to evaluate the discrepancy of standards, if any, between Sijil Tinggi Pelajaran Malaysia (STPM) and matriculation courses. Any discrepancy needs to be addressed 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.

In addition, DAP will propose that the reversal of the Teaching of Mathematics & Science in English policy (PPSMI) for all schools will be qualified to allow for the continuation of the policy in national schools where parents are in favour. This option will allow for students who are already better able to grasp the English language to pursue these subjects in the English language.

10.1.2 Building World Class Tertiary Institutions

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.

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. This matching grant program will also cover employment-internship programs and infrastructure initiatives borne out of a working coalition of joint university-state-business concerns, or any participatory initiatives from the university towards formal integration with the greater economy.

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.

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.

To promote quality and competitiveness between the local public universities, for the 2010 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. The role of the central clearing agency (UPU) will hence be purely administrative and will not intervene in the choices made by the prospective university students and the universities. 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.

10.1.3 Higher Education Loan

At present, the Higher Education Loan Fund's (PTPTN) total drawdown is RM5.295 billion (Government, total since inception), plus borrowings of RM13.0 billion (EPF & Pension Fund, 2003). They are quoted to seek an additional commercial borrowing of RM3.0 billion (2009) to meet their 2009 requirements of RM4.2 billion.

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 which has resulted in PTPTN becoming perpetually short of funds, 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.

10.1.4 Creating a Skilled Workforce

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.

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.

10.1.5 Supporting Lifelong Learning

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.

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.

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.

10.1.6 Brain Gain

One of the biggest challenges facing Malaysia's economy is its inability to retain talent within its shores, resulting in a substantial loss of productivity, innovation and economic growth. Various push and pull factors, coupled with a short-sighted government policy on talent, have been fuelling the brain drain of our nation's best minds. Our top professionals and top students have been flocking to UK, US, and most notably Singapore, while we attract second-rated professionals and low-skill immigrants.

As many economists have noted, human creativity is the ultimate economic resource, an unmitigated brain drain is certainly an alarming trend. But what is more worrying is the lack of actions from the government to reverse this trend. Many top talents currently abroad are hesitant to return to serve the country due to the perceived notion that our government do not welcome and respect talents. .

On the other hand, Malaysia has also failed to emulate Singapore's hiring policies in attracting foreign talents. In 1995, for instance, our former Prime Minister Tun Mahathir had initiated a five-year plan to recruit 5,000 foreign researchers a year. But the scheme attracted just 94 scientists, and 24 of them were returning Malaysians. By 2004, only one of these researchers remained in the country.¹⁰⁰

We recognize that stemming the brain drain phenomenon takes a lot of concerted effort to tackle the root push and pull factors such as crime rate and socio-political climate. However, the measures we propose in this section, however short-term, will mark a crucial first step towards turning the tide of brain drain.

a Overseas Malaysian expertise

In this globalized world with advanced communication technology, we can reach out more than ever to tap into the overseas Malaysian talent pool. By leveraging on the knowledge and expertise of these successful overseas Malaysians who are at the cutting edge of their fields, we will be able to get not only global talents, but also diverse viewpoints and advice from Overseas Malaysians who desire to contribute to the development of our country.

While this will not be the nation's first attempt at recruiting returning Malaysian experts and specialists, previous efforts have been hampered by bureaucracy and an uncooperative civil service, where promises and incentives were not fulfilled. What makes matters worse is that their contributions have been minimised via antiquated race-based and opaque policies, which creates career obstructions and glass ceilings for these experts.

Hence the move to reverse brain drain must be accompanied by reforms in our public sector policies which are deemed irrelevant towards creating higher quality products and services for Malaysians, with a renewed emphasis on quality and merit. DAP will allocate **RM25 million** to carry out the brain gain programme in 2010.

b Strict enforcement of scholarship bond obligation

A strict enforcement of government scholarship bond obligation is necessary to preserve the integrity of government scholarships and to stem the brain drain phenomenon. Between the year 2003 to 2007, out of 30832 graduated JPA scholars, only

¹⁰⁰ Cyranoski, David. "Malaysian biotechnology: The valley of ghosts". *Nature* 436, 620-621 (4 August 2005); Published online 3 August 2005

4920 or 16% have served their bonds and worked in the civil service.¹⁰¹ Such mismanagement of talents (paid with taxpayers' money) truly speaks to the government's lack of regard and respect for our country's most precious resource – human talents.

We propose that a better bond enforcement and scholars management system has to be put in place. All government scholars are expected to fulfill their bond obligations, failing which will incur in the repayment of the full scholarship with market interest rate.

However, if the government agency fails to offer a work position suitable to the government scholars, the scholars should be obliged to work at least 4 years for private companies who have signed up in a partnership with the government for this purpose. Under this partnership, private companies will be able to source talent from the pool of government scholars, but the government agency has the right to recall the service of the scholars within the bond term. This will ensure that our scholarship holders at least contribute to our country and not get a full scholarship and be able to get away and work in a multinational corporation overseas.

c Merit-based and fair government scholarship application process

One of the biggest push factors for talented students is when they fail to secure a government scholarship when they have exceedingly good credentials, which is not uncommon in the current practice. This is not only a waste of talents, but also an insult to the concept of hard work and fairness. A transparent and just selection system is necessary to ensure the integrity of the scholarship.

DAP will restructure the existing JPA undergraduate overseas scholarship scheme into two tiers as follows:

- a) Students with excellent SPM results to pursue pre-university studies (STPM, A-levels, South Australian Matriculation, International Baccalaureate etc.) DAP will budget **RM60 million** for scholarships to all top SPM students for pre-university studies without conditions for at least 4,000 students, up from the existing 1,500 students.
- b) Students who excelled in pre-university studies and have secured a place in top universities overseas DAP will allocate **RM500 million** for at least 1,000 top pre-university students who have secured places at top universities overseas. Additionally, **RM200 million** will be allocated to top pre-university students from poorer background to enable them to pursue their studies overseas to ensure that no young Malaysian shall be punished for their social background.

This new structure for the scheme will resolve the perpetual issue of excessive SPM students with a string of A1s, and the disputable quality of the SPM examination. The additional filtering process at the pre-university level prior to the actual award of university scholarship will reduce the number of top students competing for a limited number of scholarships.

10.1.7 Empowering Women

In addition to RM80,000 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

¹⁰¹ <http://educationmalaysia.blogspot.com/2009/06/how-many-jpa-scholars-serve-their-bond.html>

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.

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.

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.

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.

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 47.3% as at 2004. This compares poorly against our neighbours in Singapore (53.9% in 2003) or Thailand (nearly 64.2% in ~2000).

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.

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.

10.1.8 Youth & National Unity

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.

10.2 Financial Strength, Economic Resilience

10.2.1 Maintaining Islamic Finance Leadership

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.

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.

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.

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 will be to help member companies of both organizations to establish key contacts and to find potential partners and clients.

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 an exchange will result in loss of deals in the future as clients move to markets which provide 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.

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.

10.2.2 Liberalisation, Competition & Growth of Financial Services

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.

a Commercial Banking

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.

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.

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.

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.

b Capital Markets

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 heydays 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.

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.

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.

Reforms are required to incentivise more asset and fund managers to locate their investment in Malaysia. Only with successful implementation of such a strategy would 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.

c Harnessing Talent in the Financial Services Sector

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.

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.

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.

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.

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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.

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.

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-fertilisation 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.

10.3 Catalysing Innovation & Breakthrough Productivity

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.

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.

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.

The recently released 2009 Oxford/Cisco Global Broadband Quality Score placed Malaysia 53rd out of 66 countries in terms of the quality and reach of its networks – understandably behind countries like Korea, Japan, Sweden, Denmark, United States but also trailing countries we should be leading like Turkey, Chile, China, Qatar, Brazil, Argentina, Saudi Arabia, Cyprus, Costa Rica, Bahrain, Thailand, Tunisia, Mexico, Philippines and UAE.

Malaysia could not make it into the three top broadband categories of “Ready for tomorrow” (nine countries led by South Korea and Japan), “Comfortably enjoying today’s applications” (16 nations), “Meeting needs of today’s applications” (14 nations), but falls into the last category of “Below today’s applications threshold” (27 nations) and occupying the 17th position.

South Korea and Japan continue to dominate the league table in this second global study, largely due to their commitment to fast networks. In South Korea, for instance, the government has promised universal speeds of up to 1Gbps by 2012. Internationally, broadband quality has moved from one of penetration, i.e. who had broadband connection and who did not, to include broadband speed. However, Malaysia is still bogged down in the initial stage with barely any reliable services available for the speed above 2Mbps.

Earlier 2009, the Australian government had just announced a A\$43 billion new national broadband plan to provide broadband speeds of 100 Mbps to about 90 per cent of Australian homes, schools, and businesses by 2018. The other 10 per cent will get broadband access via wireless technology.

In the United States, President Barack Obama had announced a US\$7.2 billion “broadband” stimulus and begun the process of developing a holistic plan for improving broadband access nationwide.

Despite the initial fanfare launched with the Multimedia Super Corridor (MSC) in the late 1996, Malaysia has since trailed other developing countries through sheer neglect, incompetence and ignorance.

10.3.1 National Broadband Plan

DAP finds it critical 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.

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 30% target by 2012 and 60% by 2015.

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. 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.
- In addition, DAP also proposes direct grants to fund, valid for new connections signed up before 31st December 2010:
- 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.

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.

Hence, fiscal transfer schemes via favourable 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. 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.

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.

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.

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 anticompetitive manipulations.

10.3.2 Stimulus for Local MSC Companies

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.

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.

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.

10.3.3 Increasing computer ownership

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**.

Thrust III: Empowerment & Enablement – Economic Capacity Building

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 2010 and for all other secondary cities in Malaysia by 2015.

10.4 Promoting Innovation and Entrepreneurship

Small and Medium Enterprises (SME) play a pivotal role in powering our national economic growth. According to the SME Annual Report 2007 issued by the National SME Development Council (NSDC), SMEs represent 99.2% of total business establishments and employ over 5.6 million workers in Malaysia. In addition, Census of Establishments and Enterprises 2005 reported that SMEs contributed 32% of GDP and 19% of total exports for our country.

Given the high priority of SME development in our country, our Government has injected significant amount of resources into this sector. A total of 189 programmes were implemented by 14 ministries and related agencies with an expenditure of RM4.9 billion in 2007; while 198 programmes were slated for implementation in 2008 with a financial commitment of RM3.2 billion. However, these investments have yet to achieve its desirable outcome. Malaysia SMEs have not demonstrated the competitiveness and momentum of Hong Kong and Taiwan SMEs.

According to the World Competitiveness Yearbook 2008, Switzerland's International Institute for Management Development (IMD) has ranked operating performance of Taiwan SMEs 4th worldwide in 2008, up from 16th worldwide in 2006; Hong Kong SMEs have consistently ranked 1st and 2nd worldwide over the last few years; while Malaysia SMEs was only ranked 25th last year and 27th in this year. This was despite Malaysia being placed 19th overall in the World Competitiveness rankings.

The tremendous success of Hong Kong and Taiwan SMEs are greatly attributed to a clean and efficient government, favourable business environment, industrial clustering effect, accelerated growth of R&D spending, and vigorous expansion of exports in these countries.¹⁰² Therefore, it is of great importance that our Government minimises the bureaucratic burden imposed on SMEs, increases transparency of legislation and policies, and shifts from the Bumiputera SMEs oriented development scheme to a strategic framework grounded on meritocracy, inclusiveness and transparency.

Obsession with First-class Infrastructure without First-class Talents

Past examples have shown that our Government is overly engrossed in constructing first-class infrastructure, but has failed to develop the most important human capacity for utilisation and optimisation of such infrastructure. The failure of the BioValley, which was meant to attract biotech companies to a centralised hub, exemplifies the inadequacy of our Government launched initiatives. The problems that haunted Malaysia's industrial development is perhaps best epitomized by a critic from *Nature*, "flashy new labs remain largely unused, some of them led by people without proper scientific credentials. And in a culture in which criticism of authority is taboo, these problems don't look remotely near resolution."

Another poignant problem that stifles the growth of SMEs and industrial development in Malaysia is the shortage of skilled manpower.¹⁰³ It is indeed worrying that the dearth of talent is particularly severe in strategic growth areas such as biotechnology industry. According to the Malaysian Biotechnology Human Capital Development Report 2009 by Frost & Sullivan, "*there is an obvious demand gap between the supply of biotech human capital and the demand of biotech human resource needs in qualitative terms. Most industry players have indicated that there is sufficient manpower in Malaysia, just not those with good quality hence, the term skills shortage.*"

¹⁰² The Council for Economic Planning and Development (CEPD) "IMD: Taiwan's SME Performance 4th Best in the World" <http://www.cepd.gov.tw/encontent/m1.aspx?sNo=0010855&ex=%20&ic=>

¹⁰³ Ali, A. (2003), 'Engaging Economic Development through the Commercialisation of Research: the Malaysian Experience', paper presented at the General Conference of the Association of Commonwealth Universities, 31 August-4 September, Belfast.
Rasiah, R. (2002), 'Systemic Coordination and Human Capital Development: Knowledge Flows in Malaysia's MNC-driven Electronics Clusters', *TransnationalCorporations*, 11: 3, pp. 89-130.

The lack of talented and experienced human resources has constrained the growth of our SMEs. A stopgap measure to alleviate the problem is hiring of such knowledge workers from overseas. The Government should expedite the issuance and extension of work permits to skillful foreign talents. After all, we have more than 2 million unskilled foreign workers in our country.¹⁰⁴ In addition, foreign spouses will be allowed to work up to 20 hours a week.

Moreover, the DAP budget is committed to providing financial assistance in training and up-skilling/re-skilling of our workers to match the higher value work that we are asking the companies to do. We will expand on initiatives such as the Centre of Excellence in Integrated Circuit Design (COE) that functions to add value to human capital development and bridge a link between research activities, institutions of higher learning, and SMEs based on the needs of the industrial sector.¹⁰⁵

The DAP recognises that enhancing the competitiveness of our SMEs industry requires concerted efforts in tackling the weaknesses in our education system, addressing the brain drain issue, and removing institutional barriers that obstruct the development of our SMEs. Besides accelerating our development of human capacity through Education and Training, the DAP proposes in this section a number of measures to strengthen our SMEs industry.

10.4.1 Foster and Proliferate Thematic SME Clusters

Well-designed industrial clusters have nurtured a vibrant SME sector in Hong Kong and Taiwan. Cluster-based strategy has been deployed as an effective policy instrument in improving coordination, optimizing cumulative impact, and stimulating the creation and growth of businesses. One of the most striking examples is the establishment of Hong Kong Science Park that is built on the theme of innovation and technology with the key development areas of Electronics, Precision engineering, Information and Communication Technology, Biotechnology and Green Technology. It attracts more than 250 local and overseas research institutes, creates more than six thousands tech-related jobs, and generates an annual turnover of more than HK\$60 billion (approximately RM30 billion).¹⁰⁶

This contrasts drastically to the image described by the *Nature* in which “*high-performance liquid chromatography and mass spectrometry instruments lay idle – and only two research staff were present, huddled by a computer*” in a two-year-old government-sponsored institute in the Technology Park Malaysia (TPM).¹⁰⁷

In the past, considerable attention was given to the provision of industrial infrastructure and amenities to facilitate the expansion of SME activities in Malaysia. A total of RM652.2 million was provided for the establishment and expansion of SME industrial parks, comprising factory units and incubator facilities at key locations throughout our country. However, more concentrated efforts are required to elevate the competitiveness of our SME sector. Therefore, the DAP proposes to allocate **RM500 million** in fostering thematic SME clusters, which include the provision of Common Facility Centers (CFCs) and regional incubation support centers that help to integrate resources.

¹⁰⁴ Sourced from Ministry of Home Affairs, EPU. The total number of foreign workers in 2008 is 2,062,596.

¹⁰⁵ Bernama “NCIA Seals Cooperation with Usains on Research” <http://www.bernama.com/bernama/v5/newsgeneral.php?id=427772>

¹⁰⁶ “Hong Kong 2009-2010 Budget” <http://www.budget.gov.hk/Hong Kong Science Park> http://www.hkstp.org/HKSTPC/en_html/en_index.jsp

¹⁰⁷ Cyranoski, David. “Malaysian biotechnology: The valley of ghosts”. *Nature* 436, 620-621 (4 August 2005); Published online 3 August 2005

10.4.2 Devolution of SME Development Programme to the States

To better position our SME in the face of changing economic environment, the DAP proposes to mandate the state governments with autonomy and resources in developing thematic SME clusters that are customized to the regional strength and core competencies. This strategy will help to cultivate greater specialization and harness the potentials of all states to their optimal level.

The devolution of SME development to the state level will endow greater agility for our Government in addressing the needs of local SMEs that varied due to differences in local geography, demography, nature of industry and operational difficulties. The devolution in the UK in which SME programmes are increasingly administered by Scottish Enterprise, the Wales Management Council, and the Local Enterprise Development Unit (LEDU) in Northern Ireland has reaffirmed the effectiveness of this strategy.¹⁰⁸ This strategy is a major component to our theme of democratising Malaysian's economy.

To achieve the optimal benefit of devolution in SME programmes, the Federal Government will allocate sufficient financial resources and advisory service to each state government in building its own thematic SME clusters and implementing its targeted SME programmes. The Federal Government will advise the state governments on the general themes and direction of our SME industry, as well as empower the SME Central Coordinating Agency to integrate resources and to coordinate efforts among our states. In addition, our Federal Government will supplement the efforts of the state governments through strengthening the infrastructure for SME development and improving policies concerning SMEs on a timely manner.

10.4.3 Eco-Industrial Clusters

To fully leverage the strength of a thematic cluster, the state governments will play a supervisory role in ensuring the cluster is only open for SMEs that have synergistic and symbiotic relationships under a specified theme. The Eco-Industrial Clusters provide a good conceptual framework for the establishment of such competent SME cluster. This innovative type of industrial organization designed according to the principle of industrial ecology, which draws analogies from natural ecosystems to human industrial systems, has a twofold advantage of optimizing clustering effect and improving environmental quality. Study shows that this cluster approach has been widely promoted to increase regional innovation and competitiveness.¹⁰⁹

Unfortunately in Malaysia, despite the existence of seemingly thematic industrial parks in name, the tenants of these parks are from all types of industries and they are often not necessarily synergistic to each other. This has to do with the fact that the Industrial Parks are not managed and leased by an authority, but instead the focus had been to offer land for sale to build factories within these parks.

Recently, Eco-Industrial Parks (EIPs), regional Eco-Industrial Clusters and national circular economy strategies have emerged in many regional and national economy initiatives. Under the global radar, this development has yet to be visible in Malaysia, while such initiatives are well detected in our neighbouring countries such as

¹⁰⁸ "OECD Small and Medium Enterprise Outlook: 2000 Edition"

¹⁰⁹ Porter, M. (2002) Clusters of Innovation: Regional Foundations of US Competitiveness, Washington, Council on Competitiveness

Thailand and Indonesia. In view of this, the DAP targets to set up the first functional and integrated Eco-Industrial Cluster in Malaysia by 2013.

10.4.4 Enhancing Competitiveness of SMEs

a Improved Taxation Policy for SMEs

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. 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 2011 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.

In addition, this will keep the tax structure imposed on Malaysian SMEs in line with our competitors across the causeway in Singapore. Besides that, in order to encourage and nurture a more entrepreneurial economy, the 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. 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.

b Synergies of Collaborative Efforts

The remarkable achievement of the internationally renowned Bavaria Biotechnology Cluster in German, which houses 14 of the 50 world leaders in pharmaceutical sales and global players such as Amgen, GlaxoSmithKline, Pfizer and many others, is greatly attributed to the seamless cooperation among its universities, research institutions and companies.

In order to enhance the competitiveness of our SMEs, the DAP proposes to allocate **RM100 million** in facilitating and strengthening the collaborations of our universities, SMEs, public and private research centers. This objective will be achieved through the provision of grants for joint research and development initiatives, establishment of incubator centers and office of licensing and ventures in universities. Besides that, the allocation will be used to fund SME Mentorship Programmes that bring together MNCs and GLCs to improve the operating efficiency of participating SMEs.

c Financial Needs of SMEs

Accessibility to financing for SMEs has improved over the years. According to Bank Negara Malaysia, there are 100 Special Government Funds for SMEs with a total allocation of RM20.4 billion as at December 2007. The funds, which comprise of soft loans, grants, venture capital, and equity, are channeled to SMEs through the appointed financial institutions and various Ministries and Government Agencies.

The DAP will streamline the current Special Government Funds schemes, and shorten the approval and disbursement time for such financing to the eligible SMEs. Moreover, we will continue to strive for addressing the financing issues encountered by SMEs, and most importantly promote greater transparency and accountability of all financial assistance schemes to our SMEs. In addition, funding targeted on assisting SMEs owned by special groups such as women and young entrepreneurs will be allocated

to diversify the base of SMEs' ownership and to promote greater inclusiveness in our country.

It is crucial for our SMEs to elevate themselves to higher value chain in order to stay relevant and competitive. The Government will provide working capital in the forms of soft loan and matching grants to enable our SMEs to move up their focus from assembly and test equipments to the front end processing and higher value chain. Concurrently, we will encourage foreign companies to bring in design and development work, and transfer value added responsibilities to our SMEs.

d Breeding Innovation

A strong pipeline of new SMEs with great innovation and novelty is the key to the growth of our SME sector. In order to catalyse and nurture a strong base of new SMEs, the DAP shall propose that a **RM250 million** fund be set aside to act as seed funding for these 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.

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.

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 are 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.

To encourage private sector participation in the innovative industries, losses incurred by such investments will be tax deductible in the investing individual or company's income tax. A start-up's ability to secure private investment will hence become a critical criterion in securing funding from STARTUP, hence relieving the Government from the onus of investment viability.

e Minimise Bureaucratic Burden

Bureaucratic burden is often cited as the largest barrier for the development of a vibrant SME sector. A clean and efficient government with great transparency and streamlined procedures provides the favourable business environment for SMEs to thrive.

Therefore, the DAP proposes to budget RM100 million in streamlining bureaucratic procedures and minimising administrative burdens and compliance costs for our SMEs. To achieve this, the allocation will be used to revitalize E-Government initiative, establish the Centralised Agency for Shared Expertise (CASE), and set up SME One-stop Shops at easily accessible locations. The One-stop Shops will provide information about all relevant administrative regulations to SMEs, and also help them to carry out administrative formalities.

Furthermore, inspired by the framework of the Single Market of European Union countries, the DAP will initiate the effort on removing, simplifying and standardising regional legislation concerning SMEs in ASEAN. This will help to boost cross-border SME activities in the region and path the way for our SMEs to compete globally.

f Bringing our SMEs to the Global Stage

Against a backdrop of globalisation, many countries are encouraging their SMEs to go global. Similarly, the DAP envisions taking our SMEs to the global stage. Besides enhancing competitiveness of our SMEs through adoption of cluster-based strategy, strengthening collaborations, and effective financial assistance, the DAP proposes to continue the Market Development Grant (MDG) that provides assistance in developing SMEs' export market, to improve MATRADE's Brand Promotion Grant (BPG) that supports brand building exercises of our SMEs, as well as to help our SMEs in acquiring necessary international standard certification and qualification.

10.5 Investing in Research & Development

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.

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.

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.

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.

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 renowned academics from the scientific community to steer the R&D direction, innovation and entrepreneurship focus for Malaysia.

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.

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.

10.6 Revitalising the Agricultural Sector

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 RM5.82 billion to the agriculture and rural development.

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%.

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.

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.

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.

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.

For the past 7½ years, 452 new villages with a population of 1.25 million has only been allocated RM500 million for a 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.

10.7 Energy and Environment

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.

10.7.1 Green taxes

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.

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.

10.7.2 R&D in Green Technology

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.

10.7.3 Logging & Reforestation

Studies have shown that the temperature at Fraser's Hill, Genting and Cameron Highlands have risen between 2-3°C in the last 25 years due to the clearing of forests and overdevelopment. We are also facing changing ecological challenges and a loss in biodiversity 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.

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.

10.7.4 Environmental NGOs

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.

10.8 Everyone Deserves a Roof

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.

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.

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.

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.

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 RM40,0000 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.

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.

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.

10.9 Lower Crime, Safer Streets

Crime has become the biggest source of concern for all Malaysians over the past decade. All so-called attempts at all-out-war against crime has failed miserably, and our crime index has sky-rocketed. The Royal Police Commission in its report in May 2005 had expressed alarm at the "high incidence of crime", when it noted:

"The incidence of crime increased dramatically in the last few years, from 121,176 cases in 1997 to 156,465 cases in 2004, an increase of 29 per cent... Malaysians in general, the business sector and foreign investors grew increasingly concerned with the situation."

The crime index in the country has worsened from 156,315 cases in 2003 to 211,645 cases in 2008 - a sharp rise of 35.4% in the past 5 years when the police force had set the target of reducing the crime index by 5 per cent each year!

Violent crime had skyrocketed by 110.7 per cent from 22,790 cases in 2003 to 48,016 cases in 2007. Rape cases recorded a record 4,959 cases or 13.6 cases a day, up from 1,479 cases or 4.1 cases per day in 2003¹¹⁰, representing an incredulous 235% increase over 5 years. The rate of increase for rape cases has also been accelerating with an increase of 56.1% over 3,177 cases in 2007, which in turn was a 29.5% increase over 2,454 cases in 2006.¹¹¹

The people of Malaysia no longer feel secure and safe walking the streets. Hence the Government's attempts to change the "perception of crime" in Malaysia by citing statistics which are most misleading is most irresponsible. For example, the police force and the Home Minister had in December 2008 cited statistics which claimed that Malaysia is safer than Japan and Hong Kong and insinuated that we are nearly as safe as Singapore. However, upon greater scrutiny, the statistics tell a different story.

For instance, homicide per 100,000 population is 1.09 cases in Japan, 0.26 cases in Hong Kong but 2.12 in Malaysia; while rape per 100,000 population is 1.62 in Japan, 1.54 in Hong Kong while in Malaysia it is 11.47. For robbery per 100,000 population, it is 4.78 for Japan, 17.56 for Hong Kong while 90.49 for Malaysia.

Hence, instead of continuously blaming public perception as the key reason why crime is seen as serious in this country, the DAP recommends that Government and the Royal Malaysian Police should instead focus its efforts in fighting crime and improving its credibility with tangible steps, such as implementing the full recommendations of the Royal Police Commission report which included the restructuring of the police force such that 30% of the police force is transferred from administrative to crime-fighting functions as well as to set up the all-important Independent Police Complaints and Misconduct Commission.

The new Prime Minister, Datuk Seri Najib Abdul Razak has recently set the target of reducing street crimes by 20% by the end of 2010 as part of his "Key Result Area". Despite the fact that the above target does not include all other crime categories such as drug-related crimes, rape and robbery cases, there is a great deal of doubt as to its achievability without substantial reforms to the Police force.

After all, Najib had announced a 23-step Safe City Initiative in October 2004. One crucial step of the 2004 initiative is installation of CCTVs. Other urgent steps include: separation of pedestrian walks from moving vehicles, cleaning up of concealed and unkempt areas and lighting up of potential crime areas. Hundreds of millions of ringgit have been allocated to make the city safer. This program has been proven a failure for Bernama has reported that Kuala Lumpur

¹¹⁰<http://www.asiaone.com/News/AsiaOne%2BNews/Malaysia/Story/A1Story20090506-139774.html>

¹¹¹<http://malaysiacrimewatch.lokety.com/police-cid-director-2007-crime-index-increased-7-per-cent/>

registered an increase in crime rates by 39% in the first quarter of 2009 and 24% in the second quarter (July 14). Indeed, the fear of crime might have intensified. Of the 6,678 who participated in a poll conducted by the Home Ministry, "97% indicated that they did not feel safe due to the high crime rate" (The Star, July 27 2009).

In this budget, we will set aside extra funding to improve the safety of all Malaysians, especially those living in crime prone areas. These are investments for the safety and the stability of our country. They will lead to not only a better socio-economic well-being of our citizens, but will also result in a stronger confidence in our country by foreign investors and tourists, which will help grow our economy. This will be an effective and necessary complement to the effort of our government to woo foreign investors and tourists. The socio-economic climate must be right for commerce to flourish and investors to make sizeable long-term investments. People must be convinced their hard-work will be rewarded, their property secure and their personal security assured.

10.9.1 Matching grant for security programmes

DAP will be proposing allocate **RM50 million** to test run a pilot programme to reduce crime at high risk areas. We will provide a matching grant of up to RM 250 per household for the installation cost of security guards and CCTV for identified neighbourhoods.

A dedicated effort by a community to combat crime has proven to be successful. For instance, formerly crime-laden Acacia Puteri 7 in Puchong has successfully reduced crime rate to near zero by installing fence and security guard and CCTV. The installation cost was RM80,000 for 182 households and approximately 700 people. Based on this budget, RM 40,000 would be covered by the matching grant.

This will reduce the burden for the participating households and at the same time provide an extra incentive for communities to take up measures to combat crimes in addition to protection from police.

10.9.2 Matching grants for CCTV for private enterprises

Other than the housing neighbourhoods, private business owners are adversely affected by the high crime rate too. We will set aside a pilot scheme matching grant fund of **RM25 million** for the installation of CCTV for micro, small and medium private enterprises in high risk areas. The grant will also include a training grant on how to use the CCTV. The effectiveness of this pilot project shall be measured after a year in place to determine its effectiveness and further necessary actions to be taken.

10.9.3 Reforming the Royal Malaysia Police

According to the Mid-Term review of 9MP, additional 5202 and 5342 police personnel were recruited in 2006 and 2007 respectively. However, the crime rate remains high and people continue to feel unsafe.

The Home Minister has recently blamed our crime rate on the lack of policemen. He said the ratio set by Interpol was one policeman to 250 people but in some parts of the country one policeman watched over about 6,000 local residents. "With such a ratio how

can people blame the police when there is crime committed?" said Home Minister Datuk Seri Hishamuddin Hussein.¹¹²

However, statistics have shown that the claim by our Home Minister is highly misleading. We are not far from the proclaimed Interpol standard ratio – in fact, we have much better ratio compared to many other countries as illustrated by Table 12.¹¹³

Table 12: Police-Population Ratio

	Police: population ratio
Japan	1:550
Korea	1:524
Switzerland	1:495
US	1:420
Thailand	1:282 ¹¹⁴
Malaysia	1:295 ¹¹⁵

Source: United Nations Survey of Crime Trends and Operations of Criminal Justice System (1998-2000)

Hence the issue is less of the number of police officers employed by the Government, but to what ends are they deployed for. What we need is not more policemen who are manipulated and used as a political tool to oppress the people and disperse and disrupt peaceful vigils and gatherings while turning a blind eye to real crimes. We need a more efficient police force who will make people feel safe and who can gain the trust of the people. We need more police on the beats and more police investigating crimes and not have 900 police officers (or 1 out of 100 police officers in Malaysia) deployed at opposition party dinners or vigils¹¹⁶.

In addition, we need a redeployment of our limited police force. Even though the police to population ratio of Malaysia is relatively fine, in high density population areas like Petaling Jaya, the police to population ratio is dismal (1:1154).¹¹⁷ We need to restructure our excessive placement of police personnel in Federal Reserve Unit (FRU), Administration, Logistics and Special Branch so that we can deploy more police personnel to crime-fighting divisions such as CID which makes up of only 7% of the police force now.^{118,119}

¹¹² http://www.nst.com.my/Current_News/NST/articles/20090801133329/Article/index.html

¹¹³ <http://www.dapmalaysia.org/all-archive/English/2003/july03/lks/lks2423.htm>

¹¹⁴ Even though Thailand has Tourist Police and 40,000 Border Patrol Police, our ratio is not far from Thailand too.

¹¹⁵ 27.5 Million Malaysian citizens and 93348 police personnel

(http://en.wikipedia.org/wiki/Royal_Malaysian_Police)

¹¹⁶ <http://thestar.com.my/news/story.asp?file=/2009/6/22/nation/4168336&sec=nation>

¹¹⁷ Report by Centre for Public Policy Studies (CPPS) http://cpps.org.my/resource_centre/Crime.pdf

¹¹⁸ <http://www.dapmalaysia.org/all-archive/English/2003/july03/lks/lks2432.htm>

¹¹⁹ Only 6,661 out of 100,632 police personnel are in the Crime Investigation Department; <http://colour-blind.org/wordpress/?p=238>

10.9.4 Rela v Community Police

Currently, Rela's uniformed volunteers have legal immunity and are allowed to arrest individuals (especially illegal immigrants) as well as enter and search any premises without a warrant.

However, there have been numerous accusations that the Rela units commit serious rights abuses and violence. The US-based *Human Rights Watch* has accused Rela of harassing and abusing foreigners and said it was responsible for numerous cases of illegal detention. Most human rights groups in Malaysia advocate for disbanding Rela because Rela volunteers lack training and have no background in law enforcement and handling of criminals. The wide and discretionary power of RELA also worsens the climate of arbitrary law enforcement in Malaysia. Bar Council Law Reform and Special Areas chairman Datuk M. Ramachelvam said Rela members were not trained for such a job and allowing them to carry out raids would only perpetuate human rights abuses.¹²⁰

In 2009, **RM 67 million** was spent for RELA.¹²¹ This expenditure will be saved from the disbanding of RELA and be spent on improving the police force and setting up Community Policing run by the individual local authorities.

10.9.5 Fight against crime by illegal immigrants.

To stop Malaysia from becoming a haven for illegal immigrants, we will set up an agency to ensure stricter enforcement against employers employing illegal immigrants.

In addition, we should cooperate with the Asean police in setting up a criminal database system comprising of records and fingerprints to help fight against crime and illegal immigration.

We will also establish a biometric system to prevent the readmission of illegal immigrants. This system has also been successfully implemented by the Singapore government 3 years ago which requires all exiting visitors via the causeway to record their finger prints. This will ensure that deported illegals will not return to Malaysia under the cover of a different passport which may be easily secured in certain neighbouring countries. DAP will allocate **RM 500 Million** to implement the biometric immigration system to be implemented in phases at critical entry and exit points over 4 years.

¹²⁰ <http://www.dailyexpress.com.my/news.cfm?NewsID=61499>

¹²¹ Anggaran Perbelanjaan Persekutuan 2009, Ministry of Finance

10.10 Restoring judicial integrity and efficiency

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.

The DAP will attract and recruit 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.

Therefore, it is proposed that the remuneration of judicial officers be reviewed to match their peers in the private sector. In addition, experienced professionals who are recruited into judicial service will be remunerated 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 would be immeasurable from both an economic and social perspective.

To assist in resolving the delays in producing legal judgements for cases which have 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. In addition, we propose to ensure the safety of infrastructure, both physical and electronic, that house legal records and documents to preserve the safety and integrity of judiciary. This will cost an estimate of **RM 50 Million**.

The proposed changes above will only be most effective if they are 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 a 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.

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. 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

10.11 Caring for the Elderly and the Disabled

A key concern of seniors will be the quality of life in their old age. As one of the basic needs of seniors, housing is important not only because an elderly person needs a secure and comfortable home but also because housing provides a social surrounding for seniors to interact with others in the community.

10.11.1 Elderly-friendly community centres

In Sendai, Japan, there are centres in the neighbourhoods that provide comprehensive day-care and residential programmes for the elderly. It is to facilitate the socialisation process so that people who stay in this care facility do not feel isolated so they feel part of the broader community and life is not something in seclusion from the rest of the society

The Sendai Finland Wellbeing Centre has a research and development unit that produces new elderly-friendly products, such as an emergency system for the elderly using wristwatches, and a remote control to open and close doors and curtains. The centre is a joint venture between several universities and private companies from Sendai and Finland, and Japanese college students help out here as part of their curriculum.

DAP will set up 10 pilot elderly friendly community centres at designated cities with a high percentage of aging population with a budget of **RM80 million**.

10.11.2 Complement housing options with support services¹²²

Equally important, housing for seniors should be complemented by good support care services. We should work with NGOs and grassroots organizations to provide support services within the community. The setting of such social support services within the community, e.g. Senior Activity Centres, Neighbourhood Links and Senior Citizen Clubs, will provide additional opportunities for seniors to lead an active lifestyle.

Singapore has allocated in its 2009 budget a sum of \$15.1 million for the GO! (Golden Opportunities!) Fund to seed-fund active ageing projects in the community and support the Council for Third Age (C3A) in championing a more positive attitude towards ageing.

DAP will similarly set aside **RM20 million** fund for such projects to be initiated by local councils or purpose-driven non-government organisations.

10.11.3 Elderly and Accessible Public Transportation System

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.

All existing LRT stations will be fitted with barrier-free facilities such as tactile guides and lifts to make them more accessible by 2009.

¹²² MCYS Report

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.

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.

10.11.4 Neutralising Disability

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.

The outlay would focus on:

- Creation of customised programmes 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 productive members of the workforce.
- Decreasing the costs of hiring the disabled as faced by employers via the elimination of taxes payable on behalf on the disabled employees.
- Organising 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.
- 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.

To further fulfill 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. In total, we will allocate **RM 1 billion** for the Elderly and for the Disabled.¹²³

¹²³ Singapore spends around SG \$ 60 million to develop facilities for elderly and for disabled. Since Malaysia has 6 times the population and we are far behind in this aspect, we will allocate RM 1 billion (rounding up of 60 million X 6 times population X 2.5 currency conversion)

10.12 Civil Service Excellence Initiative

Malaysia has one of the highest ratios of government civil servants 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 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 “how many civil servants do you need change a light bulb”, efforts must be made to contain the expansion of our civil service as well as boost their efficiency and productivity. The bloated civil service has also become a substantial strain on the Government budget with the increased emolument expenses, which took up RM38.0billion or 24.6% of federal operating expenditure. This amount hasn't yet taken into account pensions and gratuities which cost the Government RM7.3 billion in 2009 .

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 aims 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.

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.

10.12.1 Centralised Agency for Shared Expertise

DAP proposes to set up 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.

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.

10.12.2 Revitalising E-Government

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.

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.

10.12.3 Private Sector Partnership

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.

10.12.4 Openness, Competition & Transparency

This leads to the proposal that 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.

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.

11 Public Finance: Checking Excesses

11.1 Allocation of Federal Revenue

For 2010, we estimate revenue of RM 148 billion for the Federal Government., comprising of RM50 billion¹²⁴ from petroleum-related income, RM98 billion from other sources. After an allocation of RM 4 billion to the National Stimulus Fund¹²⁵, the net expendable revenue is RM 144 billion. As proposed by the Budget, 20% of the income and corporate taxes excluding Petroleum Income Tax (PITA) or RM 9.5 billion will be allocated to the respective states proportionate to their tax contribution¹²⁶. The balance of the budget or RM 134.5 billion will be allocated for Federal purposes.

11.1.1 New & Future Sources of Revenue

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.

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.

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 the CAT system of governance based on competency, accountability and transparency. 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.

Finally, DAP's proposal to renegotiate exploitative and unfair 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.

¹²⁴See section 9.2.2 Optimising Utilisation of Oil Wealth

¹²⁵See section 9.2.4 National Stimulus Fund

¹²⁶See section 8.2.1 Tax Revenue Sharing Agreements

11.2 Operating Expenditure (OPEX)

Table 13: Federal Government Opex by Object (in RM millions)

	Average (01-06)	2007	2008	2009	DAP 2010	% change	% break down 2010
Emolument	20,165	29,815	36,176	37,985	38,745	2.0	30.4
Pensions and gratuities	5,068	7,049	8,412	7,279	7,425	2.0	5.8
Debt service charges	10,738	13,127	13,101	13,473	13,742	2.0	10.8
Grants to state govts	2,506	3,645	4,402	4,903	4,658	-5.0	3.7
Supplies and services	15,444	23,147	25,483	26,488	13,244	-50.0	10.4
Subsidies (excl. FairWage & Senior Bonus)	7,569	15,701	10,233	33,799	13,000	-61.5	10.2
FairWage & Senior Bonus	-	-	-	-	22,070	-	17.3
Asset acquisition	1,340	2,106	-	2,361	1,417	-40.0	1.1
Refunds and write-off	1,634	1,815	966	890	846	-5.0	0.7
Grants to statutory bodies	6,938	9,854	12,728	13,805	6,903	-50.0	5.4
Others	6,632	10,727	17,293	13,187	5,275	-60.0	4.1
Subtotal (ex. Bonuses)	78,034	116,986	128,794	154,170	105,253	-32.0	
Total	78,034	116,986	128,794	154,170	127,323	-17.4	100
% of GDP		18.23	17.39	20.95	19.00		

According to the Second Finance Minister, the federal government's operating expenditure will be cut by 15 per cent in the 2010 Budget¹²⁷. In this budget (excluding FairWage Bonus¹²⁸ and Senior Malaysian Bonus¹²⁹), we aim to cut OPEX by 32% from RM 154 billion in 2009 to RM 105 billion in 2010. With the proposed implementation of the new Bonuses to benefit the people, we will reduce Opex by 17%, to RM 127 billion. (See Table 13)

In the short run, the emoluments portion of the operating expenditure continues to dominate the OPEX, accounting to 30.4% of the budget with RM38.75 billion. This represents a marginal increase from the amount budgeted in the previous year, RM37.99 billion. In the short term, this overwhelming figure which had increased from an average of only RM20.17 billion between 2001-2006 will be difficult to reduce as it will be near impossible to immediately reduce the number of government employment. However, in the longer term, the objective is to increase the remuneration of our civil service to reward the performers and to attract better talents, while reducing overall cost via attrition and retirement of excess employees.

¹²⁷ Bernama; Aug 18, 2009; <http://www.bernama.com/bernama/v5/newsbusiness.php?id=433904>

¹²⁸ See section 9.1.3 FairWage Bonus

¹²⁹ See section 9.1.2 Senior Malaysian Bonus

However, we have proposed to reduce the size of the budget for Supplies and Services, which has increased from an average of only RM15.44 billion between 2001 – 2006 to RM26.49 billion in 2009, or an increase of 71.6% over just a few years. It is DAP's intent to reduce this expenditure to a level not seen since the early 2000s, RM13.24 billion in our 2010 budget. This significantly reduced budget for supplies and services can be reduced by conducting a thorough review of procurement requirements of the Government as well as imposing open, transparent and competitive tenders for government purchases to ensure highest possibly quality at lowest possible prices.

The other reduction of operational expenses will come from reduced budget for asset acquisition from RM2.36 billion to RM1.42 billion, grants to statutory bodies from RM13.81 billion to RM6.90 billion based on the average expenditure between 2001-2006, and discretionary “others” spending from RM13.19 billion to RM5.28 billion.

Finally, there was a restructuring of subsidies budget from RM33.8 billion to RM13.0 billion based on an average international crude oil price of US\$80 per barrel, while a new sub-category for “FairWage and Senior Malaysian Bonus” amounting to RM22.07 billion is allocated. The new sub-category is a direct grant assistance programme to those who are in need, while a traditional subsidies programme reduces the price of goods and services regardless of whether the purchasers were wealthy or poor. Hence, with this new restructuring, every ringgit of assistance provided will be targeted and is hence more effective in alleviating the plight of the poor.

11.3 Development Expenditure (Devex)

Table 14: Federal Government Development Expenditure by Sector (in RM million)

	Average (01-06)	2007	2008	2009	DAP 2,010	% change	% break down 2010
Economy	12,668	20,827	17,883	27,745	29,347	5.8	56.7
Agriculture and rural development	2,805	4,157	3,742	3,522	3,064	-13.0	5.3
Public utilities	1,829	0	0	3,216	4,308	34.0	8.9
Trade & Industry	2,331	5,102	3,860	4,303	4,332	0.7	8.6
Transport	5,351	7,298	6,777	7,605	13,047	71.6	25.2
Communication	91	0	0	556	873	57.0	1.1
Others	262	0	0	8,544	3,723	-56.4	7.6
Social	11,649	14,218	13,490	17,794	21,579	21.3	41.7
Education	5,960	7,941	7,358	10,087	13,687	34.9	26.3
Health	1,812	1,629	1,949	2,308	4,316	87.0	8.9
Housing	1,710	2,153	1,744	1,400	1,420	1.4	2.2
Others	2,169	0	0	3,999	2,235	-44.1	4.3
Security	3,422	6,817	6,099	4,073	2,011	-50.6	3.9
Defense	2,843	0	0	3,014	301	-90.0	0.6
Internal Security	933	0	0	1,059	1,701	61.5	3.3
General Administration	3,111	2,648	2,528	2,117	1,694	-	3.3
TOTAL BUDGET	31,183	44,510	40,000	51,729	54,631	5.6	100.0

Note: The numbers in the table from 2001 to 2009 are Gross development expenditure numbers (which include loan recoveries), which are slightly higher than the Net development expenditure numbers.

As opposed to OPEX, the Net Development Expenditure (DEVEX) will be increased by 8% from RM 50.5 billion to RM 54.6 billion.

The DEVEX for the Economy sector is expected to increase overall by 5.8%. This is mainly driven by heavier spending to improve the transportation system. Out of the RM 13

billion allocated for Transport sector, RM 5 billion is expected to be spent by the States under the revenue sharing arrangement, and RM 8 billion by the Federal Government. The 71.6% increase in the transport development expenditure from RM7,606 billion to RM13,047 billion is an intend and aggressive attempt to unlock economic potential in Malaysia via a substantially improved public transportation system. This heavy investment in this sector is expected to pay dividends in future years as productivity will increase in a compounded fashion.

An additional RM 3.6 billion given to Khazanah from the legislated oil revenue is expected to be invested in Energy & Green Technology sector (under Others). At the same time, spending for Public Utilities will increase by 34.0% from RM3.22 billion to RM4.30 billion due to a concerted effort to bring development to all parts of East Malaysia, to achieve at least 95% electricity and piped water penetration. There will also be an increase in expenditure for Communications from RM556 million to RM873 million to expedite the broadband penetration in Malaysia and the quality of services delivered.

The DEVEX for the Social sector is expected to increase by 21.3%. This is mainly due to the 87% increase in the Health sector from RM2.31 billion to RM4.32 billion, and the 26.3% increase in spending to improve the Education sector from RM10.09 billion to RM13.69 billion. The additional spending in the Education sector is made possible by the additional RM 4 billion special allocation through newly legislated Oil & Gas revenue breakdown.

On the other hand, DEVEX for the Security sector and General Administration will decrease as we intend to focus our limited resources on the development of Economy and Social sectors. Funding for these sectors will be allocated only to the most necessary and strategic expenditures. For example, while new Defense development expenditure is reduced from RM3.01 billion to RM301 million, the expenditure for Internal Security will increase by 61.5 from RM1.06 billion to RM1.70 billion. The latter is targeted specifically to reduce the rampant crime rate plaguing Malaysia today via various programmes outlined in this budget¹³⁰.

¹³⁰See section 10.9 on Crime and Security

12 Conclusion

The DAP is putting this proposed budget forward to the Government as a budget that is focused on the theme “Democratising Malaysia's Economy”. The objective of economic democratisation will lead to latent sources of economic growth being unleashed by the country's economy as each Malaysian state will be able to better exploit their economic potential while tailoring specific policies to the needs of the respective state. The theme also includes democratising the country's economy to the benefit of the masses via the restructuring and reallocation of resources, including our precious oil wealth and the multitude of unfair public contracts. Finally, economic democratisation seeks to empower and enable all Malaysians via capacity building programmes to not only be able to raise our income, but also take Malaysia to the next level of global competitiveness.

The DAP Budget for 2010 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. 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.

13 Appendix 1: Revised Schedule for Personal Income Tax Rate 2010

To assist the Malaysians cope with the rise in living expenses, particularly in urban areas, we propose 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%. In addition, we propose that the top tier of the income tax bracket be raised from RM 150,000 chargeable income currently to RM300,000.

Chargeable Income	RM	Rate	Tax (RM)
On the first	15,000	0.00%	0
On the next	15,000	7.00%	1050
On the first	30,000	-	1050
On the next	20,000	11.00%	2200
On the first	50,000	-	3250
On the next	25,000	15.00%	3750
On the first	75,000	-	7000
On the next	25,000	18.00%	4500
On the first	100,000	-	11500
On the next	50,000	20.00%	10000
On the first	150,000	-	21500
On the next	50,000	22.00%	11000
On the first	200,000	-	32500
On the next	100,000	25.00%	25000
On the first	300,000	-	57500
Exceeding	300,000	27.00%	-