# NEW STRATEGIES
## TOWARDS STIMULATING THE NATION'S ECONOMIC GROWTH

## INTRODUCTION

The world continues to face increasing risks and uncertainties since the September 11 incident, further exacerbated by the war in Iraq. While the world is still confronted with these difficulties, the outbreak of the Severe Acute Respiratory Syndrome (SARS) further worsened the economies of many countries, especially in this region.

2. All these have severely affected the global environment and the prospects of an earlier world economic recovery. Most analysts are now forecasting the economies of industrialised countries, especially the US and Japan to remain fragile. Such an outlook would certainly have an adverse impact on other economies, especially developing countries.

3. The Malaysian economy has recovered from the Asian financial crisis with a strong growth of 8.3 percent in 2000. However, in the subsequent year, the growth momentum was again affected by the global economic slowdown, following the weakening of confidence arising from weak corporate governance and the September 11 incident in the US. To mitigate the adverse impact of the external slowdown, the Government took timely actions by implementing pro-growth policies and strategies through the Pre-emptive Stimulus Package. This has successfully prevented the economy from sliding into a recession, unlike some economies in the region. In fact, our economic recovery continued to strengthen strongly in 2002, registering a growth of 4.2 percent.

4. To further sustain economic growth and ensure an efficient, resilient and competitive capital market, the Government had on 11 March this year, announced 10 new measures to stimulate and strengthen the capital market. To further reinforce these measures and ensure our economic fundamentals remain strong in the medium and long-term, the Government once again undertakes immediate initiatives to formulate policies and strategic pro-growth measures under the Package of New Strategies.

5. The Package which focuses on 4 main strategies and comprises 90 measures, aims at generating economic activities by mobilising domestic sources of growth as well as reducing our dependence on the external sector, as follows:

**STRATEGY I:**
promoting private investment

**STRATEGY II:**
strengthening the nation's competitiveness

**STRATEGY III:**
developing new sources of growth

**STRATEGY IV:**
enhancing the effectiveness of the delivery system

6. The outbreak of SARS has severely affected businesses, especially in the tourism and related sectors, arising from a significant decline in tourist arrivals. As such, the Government has also included in the Package, specific measures to assist the affected industries as well as improve the general health of the *rakyat.*

**STRATEGY I:**
**PROMOTING PRIVATE INVESTMENT**

7. To ensure the nation achieves its high growth potential, the private sector must resume its role as the engine of growth. They must not only increase existing investments but also aggressively venture to exploit new opportunities.

8. Foreign direct investment (FDI) has contributed significantly to our economic development efforts, particularly in spearheading the nation's industrialisation process. However, Malaysia must focus more on efforts to increase domestic investment, given the decline in international capital flows, arising from uncertainties in the global environment and greater competition for FDI, particularly from China.

9. In the light of these, further measures must be taken to ensure a more attractive and conducive investment environment for private sector initiatives to thrive. Towards this end, the following measures will be implemented:

i. developing Small and Medium-Scale Enterprises (SMEs) as the catalyst of growth; and

ii. liberalising Foreign Investment Committee (FIC) Guidelines.

***Developing SMEs as the catalyst of growth***

10. SMEs will be further developed to enhance their contribution to growth. For this purpose, the Government will continue to support the growth of SMEs by providing adequate and easier accessibility to funding sources, especially softer loan conditions with respect to collateral requirements, lower cost of borrowing and more expeditious loan approvals as well as flexible repayment schedules. To complement these efforts by the Government, financial institutions have also been urged to provide support for the development of SMEs. It is not only sufficient for them to have SME windows, but they must also ensure SMEs have easy access to such facilities. Financial institutions must comply with their client charter as a reflection of their commitment towards the nation's aspirations to develop the SMEs. Towards this end, Bank Negara Malaysia (BNM) will be responsible for monitoring and ensuring compliance of the client charter by financial institutions.

11. SMEs must be further developed to enable them to become the catalyst in generating domestic investment. With a view to providing SMEs with adequate funding sources at lower cost, the following measures will be implemented:

**Measure 1**
11.1 Streamlining and strengthening micro credit programme through:

a) restructuring Bank Pertanian Malaysia (BPM) to also become a micro credit bank to manage loans for small businesses and enterprises in the agriculture sector. A sum of RM500 million will be provided for the Micro Credit Scheme;

b) providing additional fund of RM200 million to Amanah Ikhtiar Malaysia (AIM) and placing AIM under the Micro Credit Scheme of BPM; and

c) establishing a new fund of RM300 million under the Micro Credit Scheme of Bank Simpanan Nasional (BSN) to finance non-agricultural projects.

**Measure 2**

11.2 Augmenting existing funds for SMEs as follows:

a) RM200 million to Tabung Ekonomi Kumpulan Usahawan (TEKUN) to further increase its effectiveness and strengthen its loan infrastructure facilities with a view to achieving nationwide coverage; and

b) BNM has provided RM1 billion, that is RM600 million for the SME Fund and RM400 million for the New Entrepreneurs Fund.

**Measure 3**

11.3 Reducing financing cost and facilitating accessibility to credit as well as preventing small borrowers from resorting to illegal moneylenders, through the relaxation of loan conditions under the Micro Credit Scheme as follows:

a) lowering interest rates on loans to 4 percent;
b) waiving collateral requirements with loans based on securitisation of cash flow;

c) scheduling loan repayment based on cash flow projections; and

d) introducing a mentoring system, wherever relevant, to ensure timely repayments on a daily, weekly or monthly basis, depending on borrower's cash flow.

12. The existing incentives for small companies will be improved. Small companies are currently given the following incentives:

a) Pioneer Status with 70 percent income tax exemption for 5 years; or

b) Investment Tax Allowance of 60 percent on capital expenditure incurred within 5 years to be offset against 70 percent of statutory income.

The conditions to qualify for the above incentives are as follows:

a) having shareholders fund of at least RM500,000, with 70 percent of the equity being held by Malaysians;

b) producing raw materials or components for the manufacturing sector;

c) product is for import substitution, with local material content exceeding 50 percent;

d) exporting at least 50 percent of its product; and

e) contributing to socio-economic development of the rural population.

**Measure 4**

12.1 Improving existing incentives through:

a) increasing income tax exemption under Pioneer Status from 70 percent to 100 percent; and

b) increasing statutory income that can be offset for Investment Tax Allowance from 70 percent to 100 percent.

**Measure 5**

12.2 Liberalising the conditions for the above incentives as follows:

a) reducing the requirement for Malaysian equity in small companies from 70 percent to 60 percent; and

b) fulfilling any one of the two criteria, either achieving at least 15 percent value-added or the activities of the company contribute to socio-economic development of the rural population.

***Liberalising Foreign Investment Committee Guidelines***

13. The Government has reviewed the FIC Guidelines to provide greater flexibility on foreign equity participation in local companies with the objective of further enhancing the nation's competitiveness in attracting FDI. In addition, application process will be streamlined to avoid duplication of functions among approving agencies.

14. Following this review, the FIC Guidelines on Acquisition of Assets, Mergers and Takeovers (1974) will be replaced as follows:

a) FIC Guidelines on Acquisition of Property By Malaysian and Foreign Interests; and

b) FIC Guidelines on Acquisition of Assets, Mergers and Takeovers By Malaysian and Foreign Interests.

**Measure 6**

14.1 For acquisitions by Malaysian and foreign interests, the only equity condition imposed will be Bumiputera equity of at least 30 percent. In the case of acquisitions by foreign interests, the remaining equity can be held either by foreign interests or jointly by foreign and Malaysian interests.

**Measure 7**

14.2 The requirement of at least 30 percent Bumiputera equity participation will be applied by all ministries except where exemptions have been granted by the Government.

**Measure 8**

14.3 The threshold level for acquisitions by foreign and Malaysian interests which is exempted from FIC's approval will be raised from RM5 million to RM10 million. The existing percentage of share acquisition/voting rights of

Malaysian and foreign interests will remain.

**Measure 9**

14.4 Processing of proposals on acquisitions by licensed manufacturing companies will be centralised at the Ministry of International Trade and Industry (MITI) and corporate proposals at the Securities Commission (SC). These proposals will no longer require FIC's consideration.

**Measure 10**

14.5 The equity condition that will be imposed on companies seeking listing on the Kuala Lumpur Stock Exchange (KLSE) are as follows:

a) Bumiputera equity participation of at least 30 percent upon listing; and

b) foreign equity condition will be liberalised to attract more foreign companies to be listed on the KLSE in line with the Capital Market Masterplan.

**Measure 11**

14.6 The compliance period for the equity conditions will be further relaxed as follows:

a) extension from one to two years for the first approval and subsequently can be extended on a yearly basis;

b) the compliance period will be based on cash flow for companies with substantial and high-risk investments; and

c) waiving equity conditions for companies incurring losses and undertaking debt restructuring. However, the waiver will be reviewed after three years.

**Measure 12**

14.7 Foreign interests will be allowed to acquire landed properties exceeding RM150,000 per unit.

**Measure 13**

14.8 For acquisitions exceeding RM100 million, companies can apply for exemptions from FIC Guidelines, subject to the approval of the Minister of Finance and on a case-by-case basis. This exemption is given for applications received before 31 May 2004.

## STRATEGY II: STRENGTHENING THE NATION'S COMPETITIVENESS

15. The Cabinet Committee on National Competitiveness, chaired by YAB Deputy Prime Minister, has recommended improvements to the existing tax incentives to further enhance the nation's competitiveness, as follows:

i. **Extension of Pioneer Status and Investment Tax Allowance under the pre-package scheme**

Under the pre-package incentive scheme, Pioneer Status with 100 percent tax exemption for 10 years or Investment Tax Allowance of 100 percent for 5 years is given on a case-by-case basis.

**Measure 14**

15.1 Incentives under the pre-package scheme will be improved as follows:

a) extending the maximum period for Pioneer Status from 10 to 15 years, commencing on the first year the company registers profit; and

b) extending the period for Investment Tax Allowance from 5 to 10 years.

ii. **Group Relief**

Under the group relief, a company is able to reduce its tax burden by offsetting the losses of one company from the profits of another within the same group. However, this relief is currently only provided to food production.

**Measure 15**

15.2 Extending group relief under the pre-package scheme to forest plantations, including rubber plantations and for selected products in the manufacturing sector, such as biotechnology, nanotechnology, optics and photonics.

iii. **Double deduction for R&D expenses**

Currently, under the double deduction incentive, approved R&D expenditure incurred during the Pioneer Status period is not allowed to be accumulated and brought forward for purposes of offsetting against income after the pioneer period. In addition, the deduction is only allowed for R&D expenditure incurred in the country.

**Measure 16**

15.3 To further encourage R&D activities, approved R&D expenditure incurred during the Pioneer Status period will be allowed to be accumulated and brought forward and be given another deduction after the Pioneer Status period.

**Measure 17**

15.4 Expenditure on R&D activities undertaken overseas, including the training of Malaysian staff, will be considered for double deduction on a case-by-case basis.

iv. **Second round Pioneer Status or Investment Tax Allowance for R&D companies**

R&D companies are currently given either Pioneer Status with 100 percent income tax exemption for 5 years or Investment Tax Allowance of 100 percent on capital expenditure incurred within 10 years.

**Measure 18**

15.5 R&D companies will be given either second round Pioneer Status for another 5 years or Investment Tax Allowance for a further 10 years.

v. **Income tax exemption to existing Operational Headquarters (OHQs)**

OHQs established prior to 2003 Budget, are subject to income tax rate of 10 percent for 5 years. However, new OHQs established after the 2003 Budget are given 100 percent income tax exemption for 10 years.

**Measure 19**

15.6 To ensure equal tax treatment, existing OHQs will also be given 100 percent income tax exemption for the remaining exemption period.

vi. **Increasing income tax exemption for Malaysian International Trading Companies (MITCs)**

Currently, MITCs are provided with income tax exemption on statutory income equivalent to 10 percent of their increased export value.

**Measure 20**

15.7 To promote export of locally produced goods, the rate of income tax exemption for MITCs will be increased from 10 to 20 percent of their increased export value.

vii. **Incentives for hypermarkets and direct selling companies that export locally produced goods**

Currently, hypermarkets and direct selling companies that export locally produced goods are not given any tax incentives.

**Measure 21**

15.8 To ensure that locally produced goods have greater access to overseas markets, hypermarkets and direct selling companies that export locally produced goods will be given income tax exemption on statutory income equivalent to 20 percent of their increased export value.

viii. **Value-added activities in free industrial zones or licensed manufacturing warehouses**

Currently, value-added activities such as labelling, packaging and repackaging undertaken in free industrial zones or licensed manufacturing warehouses, require the approval of the Minister of Finance.

**Measure 22**

15.9 All value-added activities such as R&D, design, marketing, distribution, quality control, testing, labelling and packaging will be designated as prescribed activities that can be undertaken in free industrial zones or licensed manufacturing warehouses.

16. With a view to encouraging the establishment of more Regional Distribution Centres (RDCs) and International Procurement Centres (IPCs) in Malaysia, the following tax measures will be provided:

**Measure 23**

16.1 Refunds will be allowed for duties paid by RDCs/IPCs on spare parts or components, which remain unsold for a period of one year, provided the goods are re-exported.

**Measure 24**

16.2 Flexibility will be given in the administration of the 30 percent drop shipment condition for RDCs/IPCs with substantial annual sales turnover.

**Measure 25**

16.3 RDCs/IPCs will be allowed to deliver export shipment sourced from local vendors directly to ports without going through their warehouses.

**Measure 26**

16.4 IPCs which comply with existing criteria will be eligible for income tax exemption for 10 years.

**Measure 27**

16.5 To further reduce the cost of doing business, the BNM intervention rate will be reduced by 50 basis points. Financial institutions must ensure that this reduction will be passed through to borrowers in terms of lower lending rates.

***Enhancing Human Resource Development***

17. As part of our efforts to further strengthen the nation's competitiveness, the productivity and efficiency of the workforce must be enhanced. In this regard, we must increase our capacity and improve the facilities for skills training to meet the need for a high technologically-skilled workforce. For this purpose, the following measures will be implemented:

**Measure 28**

17.1 The scope of the Human Resource Development Fund will be expanded to include training in manufacturing-related services, such as logistics, market support and information and communications technology (ICT). The utilisation period of the fund will also be extended from 2 to 5 years.

**Measure 29**

17.2 The Skills Development Fund will be restructured and given additional allocation of RM500 million to provide loans to students pursuing vocational and technical courses.

**Measure 30**

17.3 A Retraining Fund of RM100 million will be established for new graduates for retraining and reskilling in selected fields, such as ICT and accountancy.

**Measure 31**

17.4 Training schemes of 1 to 2 years will be provided for new graduates by Government-owned companies, including Tenaga Nasional Berhad and Telekom Malaysia Berhad. Private sector companies are also urged to provide similar training schemes.

**Measure 32**

17.5 Greater flexibility will be given to employers in hiring foreign workers. Automatic approvals will be granted for the recruitment of highly skilled workers where no local expertise is available.

**Measure 33**

17.6 The Ministry of Human Resources will continue to coordinate with the Ministry of Public Works and the Ministry of Home Affairs to resolve the problem of retrenched foreign workers in selected industries and to enable them to be redeployed to other sectors and locations.

## STRATEGY III: DEVELOPING NEW SOURCES OF GROWTH

18. As an open economy highly dependent on international trade, Malaysia remains vulnerable to the vagaries in the external environment. As such, the nation must reduce its dependence on the external sector. We must, therefore, undertake to intensify our efforts to stimulate domestic-driven economic activities. Towards this end, the economy must diversify into new sources of growth, particularly in the services,

construction, manufacturing and agriculture sectors.

### *Services Sector*

19. The services sector currently contributes only 57 percent of Gross Domestic Product (GDP), compared with between 60 and 75 percent in developed countries. There is, therefore, significant potential for the services sector to be further expanded and strengthened. This includes education, tourism and health.

### *Education*

20. The Ministry of Education will implement more dynamic measures to unlock the value of physical assets of higher learning institutions estimated at more than RM15 billion. This, however, has not taken into account the intangible asset value of the academicians. We must fully exploit these assets to generate higher returns to the economy.

21. Towards this end, efforts to make Malaysia as a centre of educational excellence must be further intensified. As part of the initiatives to attract more foreign students to enrol in Malaysian institutions of higher learning, the Malaysian Students Department (MSD) and Wisma Putra will undertake joint promotion of our education programmes overseas. For this purpose, the following measures will be implemented:

**Measure 34**

21.1 Establishing 4 education promotion offices, namely in Saudi Arabia, China, Indonesia and Vietnam to disseminate information on educational opportunities in Malaysia.

**Measure 35**

21.2 Seeking recognition from other countries for Malaysian education to attract more international students to pursue educational programmes in Malaysia.

**Measure 36**

21.3 Amending the Private Higher Educational Institutions Act 1996 (Act 555) to exempt international students from the requirement of taking compulsory subjects.

**Measure 37**

21.4 Granting certification to capable recruiting agencies to recruit foreign students.

**Measure 38**

21.5 Liberalising the procedures and conditions of foreign student entry into Malaysia by:

a) reducing visa payments; and

b) allowing foreign students to bring their families.

### *Tourism*

22. To further enhance the effectiveness of our tourism programmes, greater coordination is needed in our efforts to promote tourism, especially Education Tourism, Health Tourism and Malaysia My Second Home. Relevant Government agencies and travel agents must mobilise their resources to promote these programmes through the multi-media, roadshows, exhibitions, advertisements and documentaries. In addition, the following measures will be implemented:

**Measure 39**

22.1 Increasing the Tourism Infrastructure Fund by RM500 million.

**Measure 40**

22.2 Exempting service tax on complimentary rooms provided by hotel operators, commencing from 1 June 2003.

***Health***

23. The growth potential of the health sector must be further exploited. Apart from promoting health tourism, the following specific programmes will be undertaken:

**Measure 41**

23.1 Establishing the Unit of Traditional and Complementary Medicine (TCM) to promote the use and practices of local TCM.

**Measure 42**

23.2 Setting up the Global Information Hub on Integrated Medicine and carrying out research on various herbal products and TCM practices.

**Measure 43**

23.3 Developing Malaysia's natural resources into herbal medicinal products of high commercial value through biotechnology and formulating a strategic master plan for the development of plants identified as potential herbal medicinal products.

**Measure 44**

23.4 Promoting the development of biotechnology by:

a) providing sites in the Bio-Valley for R&D and production of vaccines; and

b) encouraging joint ventures and sub-licensing to ensure quality and sustained vaccine development.

**Measure 45**

23.5 Establishing the Institute of Natural Products and Vaccinology in the Bio-Valley to enable greater networking among researchers.

***Manufacturing Sector***

24. The manufacturing sector continues to be the second largest contributor to the nation's economic growth, with electronics providing the lead in the sector's expansion. However, in the light of greater uncertainties in the external environment and increased competition from new global players, efforts must be taken to accelerate the transition towards the production of high value-added goods and explore new areas where Malaysia has the competitive edge. Towards this end, the following measures will be implemented:

**Measure 46**

24.1 Establishing a New Technology Investment Fund with an initial capital of RM500 million to acquire equity in foreign companies or invest in start-up companies in new growth sectors. The Fund will be managed by a Government agency.

**Measure 47**

24.2 Providing matching grants to meet training costs of projects in selected sectors, both domestic and overseas. The training costs cover salaries, fees, consumables, return air fares, accommodation and cost of living allowances for trainees and trainers.

**Measure 48**
24.3 Providing matching grants for companies in selected sectors to undertake R&D activities in Malaysia for the following purposes:

a) rental of facilities in incubation centres and science and technology parks;

b) salary for personnel (scientists and researchers) for a period up to three years; and

c) R&D costs, including for R&D projects jointly undertaken by industry and research institutions, universities or research-based companies.

**Measure 49**
24.4 Providing matching grants for commercialisation of research findings and innovations in selected growth sectors.

**Measure 50**
24.5 Establishing the Fund for Development and Promotion of Malaysian Brand Names for Malaysian companies with an initial amount of RM100 million for:

a) cost of development, registration of trademarks and patents as well as promotional expenses; and

b) grants up to a maximum of RM10 million a year per company, of which 10 percent is for domestic promotion activities.

**Measure 51**
24.6 To promote the development of seed venture capital, the Government has provided RM100 million to Malaysian Venture Capital Berhad (MAVCAP) to spearhead seed investment, nurture entrepreneurial development and generate new ICT opportunities.

**Measure 52**
24.7 Strengthening security for industrial and commercial establishments.

**Measure 53**
24.8 Improving road and air transportation facilities between the West Coast and the Eastern Corridor of Peninsula Malaysia.

**Measure 54**
24.9 Relocating Malaysia Export and Trade Development Corporation (MATRADE) offices in strategic locations overseas as follows:

a) establishing new offices in Jakarta, Manila, Bangkok, New Delhi, Budapest and Buenos Aires; and

b) relocating existing offices in Kuwait, Tunisia and Caracas to Bahrain, Cairo and Miami.

***Agriculture Sector and Rural Development***

25. In promoting the agriculture sector as the third engine of economic growth, measures will continue to be undertaken to increase investments in large-scale agricultural and commercial

activities. Efforts to establish Malaysia as a regional centre for the production of food and *halal* products will also be intensified. Further, to meet the increasing domestic demand for food and for exports, agricultural output must be increased by encouraging plantation activities in idle lands.

**Measure 55**

25.1 Enhancing the Fund For Food with an additional RM1 billion.

**Measure 56**

25.2 To promote rubber-based furniture industry, the planting of 25,000 hectares of rubber per year for 15 years will be undertaken. For this purpose, the Government will establish a Rubber Forest Plantation Fund with an initial allocation of RM200 million in the form of soft loans.

**Measure 57**

25.3 Providing an allocation of RM300 million to improve the infrastructure and delivery system in rural areas aimed at stimulating rural economic activities.

**Measure 58**

25.4 Providing better facilities and equipment to fishermen, with the Government building 1,000 fishing boats of metal or composite materials with modern equipment to replace wooden boats. These boats which will be leased to fishermen will be managed by Persatuan Nelayan Kebangsaan (NEKMAT).

**Measure 59**

25.5 Continuing with the programme to encourage rubber and palm oil smallholders to diversify their agricultural activities. An estimated one million hectares of land has been identified for this purpose.

***Construction Sector***

26. Construction has been a key sector in our efforts to stimulate domestic economic activities and in enhancing growth. The sector has greater linkages, particularly with construction-related industries. Further, it is also the Government's objective to provide affordable low and medium-cost houses for the lower income group. Towards this end, the following measures will be implemented:

**Measure 60**

26.1 The Government will implement the Home Ownership for the People (HOPE) project for the following:

a) for new buyers and first-time owners of houses costing below RM100,000, the Government will provide:

i) subsidy on housing loan interest payment of 3 percent for the first year; or

ii) interest free loan on deposit of 10 percent for the first year; and

iii) the loan is obtained from BSN.

b) for those who obtain loans from other financial institutions to purchase houses costing below RM100,000 under BNM Lending Guidelines on Housing Loans, a cash payment of RM600 will be given and credited into their loan accounts.

c) for new buyers of completed houses and first-time owners of houses costing between RM100,000 to RM180,000, a tax relief on interest payments will be given to individuals as follows:

i) RM5,000 for the year of assessment 2003;

ii) RM3,000 for the year of assessment 2004; and

iii) RM2,000 for the year of assessment 2005.

Measures (a) and (c) will be for houses purchased during 1 June 2003 to 31 May 2004.

**Measure 61**

26.2 In line with the Government's objective to provide affordable houses to the low-income group:

a) Syarikat Perumahan Negara Berhad (SPNB) will build at least 150,000 units of medium-cost and affordable houses within a 5-year period; and

b) owners of low-cost houses below RM42,000 will be allowed to sell their existing houses at market prices after 5 years to purchase larger and more comfortable houses in line with their increased incomes. They will also be eligible for incentives under Measure 60. However, they will not be eligible to apply for another low-cost house in the future.

**Measure 62**

26.3 For Government employees, especially ex-police and armed forces personnel who had contributed to the nation's security and defence, the Government through SPNB, will purchase completed but unsold apartments, currently estimated at 4,400 units, at a discount of at least 20 percent of the market price. These units will then be allocated to those eligible through a hire-purchase and buy-back scheme. They are only required to pay a monthly rental of RM50 and subsequently given the option to purchase these units after 3 years. This scheme will also be made available to widows of government employees, including police and armed forces personnel, as well as single mothers, who do not own houses.

**Measure 63**

26.4 There has been criticism that Government-owned low-cost flats are too small and lacked facilities. As such, the Government will undertake a programme to upgrade the exterior and improve the facilities of these flats. This is in line with the Government's objective to provide the *rakyat* with more comfortable and environment-friendly homes. Towards this end, the following measures will be implemented:

a) the Government will allocate RM200 million to undertake improvement works for low-cost flats which are 5 years old and above, including repainting, landscaping and fencing as well as providing recreational facilities, such as playgrounds, libraries and childcare centres;

b) the implementation of this programme will be given to Class D and below Bumiputera contractors. The programme is also expected to generate more job opportunities and other related economic activities. In addition, the occupants of these low-cost flats will be able to enjoy more comfortable and better living conditions; and

c) upon the successful completion of this programme, the Government will consider undertaking a second phase, to include further upgrading, such as improving the wiring system, piping, sewerage and if possible, increasing the number of rooms and bathrooms.

**Measure 64**

26.5 The Government will continue to undertake development projects, with priority given to infrastructure and construction-related projects, which have multiplier effects on the economy. In this regard, projects that will be given priority for implementation will be those which have been issued with Letter of Intent .

**Measure 65**

26.6 Real property gains tax will be exempted for a period of one year, effective from 1 June 2003.

**Measure 66**

26.7 Stamp duty exemption will be given on completed loan documents related to purchase of residential houses costing not more than RM180,000 per unit from housing developers, Government agencies or cooperatives, on condition the sales and purchase agreement is executed within a one-year period from 1 June 2003.

**Measure 67**

26.8 Reducing the current contribution rate of 0.25 percent by developers to Construction Industry Development Board (CIDB) as follows:

a) full exemption will be given to low, medium-low and medium-cost housing developers; and

b) reduction of 50 percent to 0.125 percent for developers of other projects.

**Measure 68**

26.9 Intensifying efforts in human resource development programmes in the construction sector with a view to upgrading skills and productivity of workers as well as providing training for graduates and school leavers.

## STRATEGY IV: ENHANCING THE EFFECTIVENESS OF THE DELIVERY SYSTEM

27. An efficient civil service delivery system is essential in ensuring expediency and effective

implementation of national development policies and strategies.

For this purpose, the recommendations of the Strategic Thrust Committee on Government Delivery System chaired by the Chief Secretary to the Government will be implemented as follows:

**Measure 69**

27.1 As part of the proactive efforts to support and facilitate investment in the manufacturing sector, the Malaysian Industrial Development Authority (MIDA) will appoint special project officers to hand-hold and assist investors in obtaining all necessary approvals for projects until they are operational.

**Measure 70**

27.2 The processing and approvals for Building Plans and the Certificate of Fitness for Occupation (CFO) will be expedited through the following measures:

a) establishing a two-tier One-Stop Centre at the Local Authority and at the State Government level. At the Local Authority level, the One-Stop Centre will process all applications for Building Plans and CFOs, including obtaining the certification from relevant technical agencies. Difficult and problematic cases will be referred to the One-Stop Centre at the State Government level to be resolved;

b) Local Authorities will comply with existing Guidelines in approving Building Plans within 12 weeks and issuing CFOs within 4 weeks;

c) the number of technical departments involved in certifying CFOs will be reduced from 7 to 4, namely the Public Works Department, Sewerage Services Department, Fire Services and Rescue Department and the Drainage and Irrigation Department;

d) exempting CFO requirement for several categories of buildings to promote self-regulation through appropriate certification by relevant professional bodies;

e) giving priority to applications for Building Plans and CFOs for the manufacturing sector and related services;

f) Local Authorities and technical departments involved will approve CFOs without the requirement for developers or applicants to settle all payments; and

g) disseminating information on Building Plans and CFOs through guidebooks and the electronic media.

**Measure 71**

27.3 For land alienation and land use conversion, a fast-track system will be established and State Economic Planning Units appointed as one-stop processing centres for such applications. For this purpose, the following measures will be implemented:

a) expediting land transactions through the delegation of power from the State Government to the Director General of Land and Mines or the Land Administrator at the district level. In line with this, land title registration will be centralised at the District Land Office.

b) establishing an integrated electronics Land Administration Modernisation System to support land administration at each administrative level on a fast-track basis; and

c) enhancing the expertise of land office personnel through training programmes.

**Measure 72**

27.4 The Department of Occupational Safety and Health (DOSH) approves applications for designs and installation as well as issues Certificate of Fitness for Machinery. To further improve the approval process, the following measures will be implemented:

a) reducing approval period for machinery designs from 12 to 6 weeks; and

b) extending the validity period of the Certificate of Fitness for Machinery from 15 months to between 3-5 years.

**Measure 73**

27.5 To facilitate the application process for permits and business licences, the following will be undertaken:

a) reducing the requirements for employers to apply for permits, approvals and exemptions pertaining to payment, advance and deduction of wages, night work and maintenance of workers' register through the provisions for such matters under the relevant legislation;

b) all Local Authorities will use standardised processes in the application and renewal of business licences in addition to introducing composite licences and extending the validity period between 3-5 years;

c) developing the Public Services Portal as a one-stop window for the public and business community to obtain information and application forms as well as enable on-line transactions; and

d) organising annual dialogues between State Governments and Local Authorities with the private sector to disseminate information, receive feedback and promote a more business-friendly environment in line with Malaysia Inc.

28. In addition, measures will be undertaken to further improve the efficiency of revenue collecting agencies.

**Measure 74**

28.1 Implementing the Electronic Data Interchange (EDI) at all ports and airports by October

2003 and the provision of paperless services by April 2004.

**Measure 75**

28.2 Implementing a Customs Golden Client programme to accord green-lane privileges at entry and exit points to traders who contribute substantially to tax revenue and have good track record of tax payments.

**Measure 76**

28.3 Providing on-line submissions, validations and payments of excise duty, sales tax and service tax.

**Measure 77**

28.4 Reducing processing time for stamping documents through e-stamping.

## MITIGATING THE NEGATIVE IMPACT OF SARS

29. Since the outbreak of SARS, the tourism industry, especially hotel operators and travel agents as well as the business sector have been severely affected. To assist them, the following immediate measures aimed at reducing their costs of doing business will be implemented:

**Measure 78**

29.1 Suspending income tax installment payments for travel agencies beginning from 1 June to 31 December 2003.

**Measure 79**

29.2 Providing a 5 percent discount on monthly electricity bills to hotel operators from 1 June to 31 December 2003.

**Measure 80**

29.3 To increase the disposable income of the *rakyat*, the following measures will be implemented:

a) Reducing the EPF contribution by employees from 11 to 9 percent for a period of one year beginning 1 June 2003; and

b) Providing a half-month bonus to all Government employees. Government-owned companies which are expected to register profits this year, are also urged to provide similar incentives to their employees.

**Measure 81**

29.4 Exempting Human Resource Development Fund levy for travel agencies and hotels beginning 1 June to 31 December 2003.

**Measure 82**

29.5 Reducing road tax for taxis for 6 months by 50 percent. This reduction is given only once.

**Measure 83**

29.6 Exempting service tax for hotels and restaurants from 1 June to 31 December 2003. This measure, apart from assisting the SARS-affected sectors, will also have multiplier effects on the economy, arising from increased private sector consumption.

**Measure 84**

29.7 Exempting import duty and sales tax on tele and video conferencing equipment to facilitate communications, especially among SARS-affected countries, provided they are not produced locally.

**Measure 85**

29.8 To assist operators of duty-free shops and other outlets in Malaysian airports, the following will be undertaken:

a) reducing by 50 percent the rental on premises by Malaysia Airport Holdings Bhd (MAHB);

b) reducing the rate imposed on promotion and advertisement from one to 0.5 percent of the sales value; and

c) extending the existing concession contract period for commercial premises by two more years.

Measures (a) and (b) above will be effective from 1 June to 31 December 2003.

**Measure 86**

29.9 To ease the financial burden of borrowers in the tourism sector, such as travel agents and operators of hotels, restaurants and shopping centres, the following will be implemented:

a) BNM will provide a Special Relief Guarantee Facility (SRGF) of RM1 billion, especially for working capital;

b) Banking institutions will provide financial relief to borrowers by restructuring or rescheduling of loans for:

i. all types of borrowings and credit facilities; and

ii. mortgages undertaken by employees whose remuneration have been reduced by employers; and

c) stamp duty exemption on loan documents will be given for the above.

**Measure 87**

29.10 Currently, employees are given income tax exemption on leave passage for domestic travel provided by employers. However, income tax deduction is not given to employers for expenses incurred on such leave passage. To further encourage domestic tourism, employers will be given double deduction for such expenses for a period of one year from 1 June 2003.

**Measure 88**

29.11 Officers and staff in Government Hospitals who are directly involved in providing treatment to SARS-affected patients will be given a special critical allowance of RM400 a month for doctors and RM200 for other staff from 1 April 2003 until the SARS epidemic is over.

**Measure 89**

29.12 The Institute of Medical Research (IMR) will become the Centre for Disease Control (CDC) to undertake research into the prevention of contagious diseases, such as SARS, dengue and JE.

**Measure 90**

29.13 Efforts to contain, control and prevent the spread of contagious diseases should not only be the responsibility of the Government, but also require the commitment and support of all Malaysians. As such, we must give utmost importance to cleanliness both at homes and public places. A sense of cleanliness must be instilled from young and imbued in our culture. To undertake cleanliness programmes, a sum of RM200 million is provided to Local Authorities.

## FINANCIAL IMPLICATIONS

30. The Package of New Strategies to stimulate economic growth will result in a loss of Government revenue amounting to RM800 million a year, from the provision of incentives and tax exemptions. This Package will require Federal Government budgetary allocation of RM1.7 billion. In addition, BNM will provide RM2 billion while Development Financial Institutions, such as BPM, BSN, Bank Pembangunan dan Infrastruktur Malaysia Bhd (BPIMB) and Bank Industri will provide RM3.6 billion as follows:

| Fund | RM million |
|---|---|
| **Federal Government** | |
| Rural Infrastructure | 300 |
| TEKUN | 200 |
| SPNB – upgrading | 200 |
| Rubber Forest Plantation Fund | 200 |
| Local Authorities – cleanliness programme | 200 |
| Retraining Fund | 100 |
| Re-capitalisation: | |
| BPM | 200 |
| BPIMB | 100 |
| BSN | 100 |
| Bank Industri | 100 |
| | **1,700** |
| **BNM** | |
| SME Fund | 600 |
| New Entrepreneurs Fund | 400 |
| Special Relief Guarantee Facility | 1,000 |
| | **2,000** |
| **Loan Programmes** | |
| i) BPM | |
| Micro Credit Scheme | 500 |
| Fund For Food | 1,000 |
| AIM | 200 |
| ii) BSN | |
| Micro Credit Scheme | 300 |
| iii) Bank Industri | |
| New Technology Fund | 500 |
| Fund for Domestic Brands | 100 |
| iv) BPIMB | |
| Tourism Infrastructure Fund | 500 |
| v) Skills Development Fund | 500 |
| | **3,600** |
| **TOTAL** | **7,300** |

## CONCLUSION

31. The Government is confident that this Package will further strengthen the nation's economic fundamentals that will ensure more sustainable growth in the medium and long-term. In addition, the measures to develop new sources of domestic growth will contribute significantly to our efforts in reducing the nation's dependence on the external sector.

32. The Government will continue to closely monitor the expeditious and effective implementation of this Package. We are confident that with the concerted support of all Malaysians, the nation will be able to achieve a stronger growth this year compared with last year. The nation is also expected to sustain this strong growth in the years ahead.

**Putrajaya**
**21 May 2003**