Speech by Parliamentary Opposition Leader/MP for Ipoh Timur, Lim Kit Siang, on the 2005 Budget in the Dewan Rakyat on Monday, 12th September 2004:

Reminder – Bolivia became more corrupt after launch of National Integrity Plan

Firstly, let me congratulate the Prime Minister, Datuk Seri Abdullah Ahmad Badawi, for his first budget speech in Parliament as Finance Minister last Friday.

It was very well received by the media, financial and economic commentators but which budget in the past had not received superlative praises immediately after its delivery – even those which were subsequently repudiated as not made in the national interest.

Eight days before the budget presentation on Sept. 2, the Kuala Lumpur stock market's benchmark Kuala Lumpur Composite Index (KLCI) jumped some 18 points during intraday trading following announcement of former Deputy Prime Minister Datuk Seri Anwar Ibrahim's acquittal by the Federal Court from sodomy charges, reversing earlier losses.

I am reminded of the international release of the World Competitiveness Yearbook 2001 prepared by the Swiss-based business school International Institute for Management Development (IMD) of Lausanne, where Malaysia's ranking fell four places from 25th in 2000 to the 29th spot. When releasing the WCY scoreboard in April 2001, the Director of the IMD World Competitiveness Project, Professor Stephens Garelli said that factors holding down Malaysia's competitiveness were "concerns" about the government's economic policies and the imprisonment of Anwar Ibrahim as well as worries over the eventual change in government leadership.

Both are reminders that accountability, transparency and good governance, such as a truly independent judiciary and a just rule of law, are major factors in determining a nation's economic health and international competitiveness.

Call to Parliament to review and rescind six-month suspension of Karpal Singh for good name of Parliament and nation's international reputation

September 2, 2004 should go down in Malaysian history as a historic date when the country took the first important step to turn back from more than one-and-a-half decades of relentless undermining of independent institutions and organs of state, including the fundamental constitutional principle of the separation of powers among the Executive, Legislature and the Judiciary, creating a multiple win-win situation to all the important stakeholders of the Malaysian society.

But this was not to be, for five days later, on Sept. 7, the "feel good" euphoria that the country has made a critical turn towards accountability, transparency and good governance was punctured with a naked and brutal display of Lord Acton's maxim "Power tends to corrupt, and absolute power corrupts absolutely" when the nine-tenth parliamentary majority of the ruling coalition suspended DAP MP for Bukit Glugor Karpal Singh not only on a most trivial matter, but against the most elementary notions of justice. This was because all the six members of the Committee of Privileges had unanimously agreed that Karpal had neither been guilty of making a false statement nor misleading Parliament at their second meeting on July 10, but this did not prevent five of them from complying with a directive originating from outside the Committee that Karpal must nonetheless be punished with a 10-day suspension with apology or six-month suspension without apology.

This issue concerns not just Karpal, but national and international confidence in accountability, transparency and good governance, including the system of justice, in Malaysia - with direct bearing on our national economic well-being.

Just as the Federal Court has announced that it has powers to review its decision on Anwar's earlier corruption conviction, Parliament must seriously review and rescind its arbitrary, high-handed and undemocratic six-month suspension of Karpal, not just for the sake of Karpal but even more important for the good name of Parliament and international reputation of the nation that the world, in particular foreign investors, can trust Malaysians in their innate sense of justice and fair play in the conduct of all transactions – whether financial, economic or international.

Major letdown - three areas s Abdullah's maiden 2005 budget should be different from previous Mahathir budgets?

Abdullah started his maiden budget speech reiterating that his government is committed to fulfill all promises made in the Barisan Nasional manifesto. One important reason why the Barisan Nasional could win an unprecedented general election victory is the new Prime Minister's pledge of a clean, incorruptible, accountable, efficient, people-oriented government which is prepared to listen to the truth from the rakyat.

This was why, in the most chaotic, confusing, unfair and disgraceful general election in the 46-year history of the nation, the Barisan Nasional had won a nine-tenth parliamentary majority as Abdullah has promised change and reform of the system of governance after more than two decades of darkness for democracy and good governance under the previous premiership.

In the circumstances, Malaysians and MPs are entitled to ask – how is Abdullah maiden budget, the 2005 budget, different from the previous budgets, in particular from the three budgets from 2002 to 2004 which were all presented by Tun Dr. Mahathir Mohamad as Finance Minister.

Can any Minister, Deputy Minister, Parliamentary Secretary or MP point out how is Abdullah's first budget different from the last three budgets presented by Tun Dr. Mahathir, in expressing the hallmarks of the 2004 general election pledge of a clean, incorruptible, accountable, efficient and people-oriented government and dedicated to the slogan of "excellence, glory, distinction"?

Most of the things which are stated in the 2005 budget are also to be found in the budgets of recent years, including its four strategies, viz:

- Enhancing the effectiveness of government financial management, efficiency of the delivery system and competitiveness;
- Accelerating the shift towards a higher value-added economy;
- Developing human capital as a catalyst of growth; and
- Ensuring the well-being of the rakyat through improving their quality of life.

Recent budgets, like the 2005 budget, also dealt with issues like domestic private sector as the engine of growth, stimulating the services sector; promoting Malaysian industries in the global market; priority to education, Research and Development (R & D) , health and tourism; modernization of the agricultural sector, in particular programmes to increase food production, to make it the third engine of growth; etc.

What are the outstanding characteristics which make the 2005 Budget stand out and different from previous budgets, or are they fundamentally the same – and is the promise of change, reform and a major shake-up in the system of governance as pledged by Abdullah in the recent general election and when he became Prime Minister last November proving to be a mirage and illusion?

I would have thought that in at least three objectives, the 2005 Budget will distinguish itself from previous budget presentations, by making clear, unqualified and unequivocal commitments viz

- Root out corruption;
- Accountability, transparency and good governance, freeing the government from the cult of secrecy, ushering in a freedom of information regime and a free and independent media so that the government could hear truth and informed opinion from the rakyat.
- Upholding the separation of powers among the executive, legislature and judiciary by giving full support to parliamentary reforms and modernization as well as restoration of national and international confidence in a truly independent judiciary and a just rule of law.

Apart from the reference in Para 26 about the Special Cabinet Committee on Integrity of Government Management to "ensure that all government departments and agencies give due attention to audit reports by the Auditor General", there was only one miserable mention of corruption.

Bolivia became more corrupt after launch of National Integrity Plan in 1998

A Cabinet Committee on Ethics and Integrity had also existed under the Mahathir administration under one name or another, but it had never been known to make any impact on government integrity and was completely impotent to check the plunge of Malaysia's ranking in the Transparency International Corruption Perception Index (CPI) in the past nine years from 23rd position in 1995 to 37th placing in 2003.

The sole miserable mention of corruption is Para 40 of the 2005 Budget, viz:

> "40. Priority will be given to promoting ethical values and governance as well as curbing corruption. To enhance the level of national integrity, the National Integrity Plan (PIN) was launched in April 2004. PIN is not only designed for implementation for the public sector, but should also be adopted by the private sector. To monitor its implementation, the Malaysian Institute of Integrity as been established with an allocation of RM6 million."

I find this a great letdown, as one important aspect Malaysians are expecting to see a major difference between the present and the previous Prime Minister is the commitment and political will to fight corruption.

The drafting and launching of a National Integrity Plan does not per se make a country clean and incorruptible or set it on the path to greater integrity, as many countries and institutions have become more corrupt despite the launch of a national integrity plan or code of ethics.

Bolivia is one good example. It launched a National Integrity Plan in 1998, when a survey showed that 80% of the Bolivian population thought that corruption was the most serious problem in the country.

Bolivia's was ranked in the 69th position in the Transparency International CPI 1998, with a CPI score of 2.8 (with 10 being highly clean while 0 highly corrupt). Five years after the launch of its National Integrity Plan, Bolivia's ranking and score in the Transparency International CPI 2003 had both slipped further to No. 106 with a CPI score of 2.3.

Malaysia should not end up like Bolivia with corruption becoming more widespread and deep-rooted despite the launching of a National Integrity Plan and more anti-corruption expenditures.

We already had one such example, the Judges' Code of Ethics 1994, which was not only a dead letter but became a farce when the Lord President responsible for drafting and launching it was also the person responsible for the most unethical judicial misconduct, plunging public confidence in the independence, impartiality and integrity of judges to an all-time low.

I find it unthinkable that the body to monitor the implementation of the National Integrity Plan – the masterplan to combat corruption and create a new culture of integrity with zero tolerance for corruption – is an insignificant Malaysian Institute of Integrity, which will get an allocation of RM6 million for its establishment.

During question time on the National Integrity Plan this morning, I had asked how the Malaysian Institute of Integrity could play the role to monitor the implementation of the National Integrity Plan when all it could do is to conduct studies on public perceptions about national integrity in the country, when what is urgently needed is to ensure the implementation of a blueprint to root out corruption and create a new political culture of public integrity with zero tolerance for corruption. The right and proper body to monitor the implementation of the National Integrity Plan would be a high-powered organ, such as a Parliamentary Committee on National Integrity, to spearhead a national campaign against corruption, monitor progress of the National Integrity Plan and exercise oversight responsibility over the Anti-Corruption Agency (ACA). As usual, there was no coherent answer from the Deputy Minister in the Prime Minister's Department, , Datuk Kayveas, who was handling the question.

In August last year, DAP had presented a memorandum to the Director-General of ACA , Dato' Zulkipli bin Mat Noor, suggesting that the ACA should accept the challenge of the former Prime Minister Tun Dr. Mahathir and draw up a 10-year Anti-Corruption Action Plan to compare with Finland and be ranked among the world's five least corrupt countries in the annual Transparency International Corruption Perception Index by 2013

At the Transparency International Malaysia National Integrity Medal award ceremony on 28th June 2003 to honour posthumously Tun Dr. Ismail Abdul Rahman, Tun Tan Siew Sin and Tun Ismail Mohamed Ali for their unquestionable integrity throughout their services to the nation, Tun i Dr. Mahathir made the startling confession about one major downside of his 22-year premiership.

He lamented that the country had "seen a steady deterioration and erosion of ethical standards of behaviour in both the public and business sectors, with predictable consequences for sustainable human development, not only here in Malaysia, but unfortunately in many of the countries we look up to".

Dr. Mahathir sought to justify why no "sharks" of corruption had been arrested and punished during his long premiership by challenging the belief that the "big fish" must be caught while the "minnows" were considered unimportant, contending that this was wrong as the culture of corruption began with the minnows. He said: "Besides, when corruption is tolerated among the minnows, the big fish are encouraged and society accepts the practice, and it becomes a culture."

This was a weak and even pathetic excuse for the lack of ACA action against the "big fish" during the past two decades, and totally contradictory to the promise made by Datuk Seri Anwar Ibrahim when he was Acting Prime Minister in the two fateful months in 1997 when shepherding the Anti-Corruption Bill 1997 with the pledge to the nation: "Now is the time to act…we will catch the big ones and we will catch the small ones".

Ironically and tragically, the only "big fish" to be caught during the 22-year Mahathir premiership was none other than Anwar Ibrahim himself, who was convicted and jailed for six years for a corruption offence which did not involve a single sen or had anything to do with any monetary or material consideration whatsoever!

During the first major financial scandal of the premiership of Dr. Mahathir, the RM2.5 billion Bumiputra Malaysia Finance scandal which caused the murder of an up-and-coming, young, conscientious and model management executive, Jalil Ibrahim, the Prime Minister made the prophetic comment that it was "a heinous crime without criminals" – as since then, the "heinous crimes" of financial scandals had continued to increase in scale reaching tens of billions of ringgit but all completely "without criminals"!

The tradition and culture of "heinous crimes without criminals" is an indictment on the effectiveness, efficiency, independence and professionalism of the ACA to combat corruption, abuses of power, criminal breach of trust and all forms of deviations.

The ACA should end its target-less Vision, Mission and Objective and rise up to the challenge for a corruption-free Malaysia comparable with Finland.

In his speech at the Transparency International Malaysia National Integrity Medal award ceremony, Dr. Mahathir said that Malaysia must compare its public behaviour with Finland, which came out as the world's least corrupt and most ethical country in the past three years in TI's CPI.

He said: "I know we have some way to go, but given the level of public support the Anti-Corruption Agency now enjoys, and the wide-ranging anti-corruption measures now firmly in place, we can get to be among the highest ranking countries."

Dr. Mahathir's belated recognition and commendation of TI was all the more pertinent as in the past seven years, Malaysia's ranking on the TI's CPI had fallen well below the original 23rd placing, viz. 23rd in 1995, 26th in 1996, 32nd in 1997, 29th in 1998, 32nd in 1999, 36th in 2000 and 2001, 33rd in 2002 and 37th in 2003.

In contrast, Finland has been able to maintain its position as among the world's least corrupt nations, positioned in the fourth place in 1995 and 1996, moved up to second place in 1997, 1998 and 1999, and from 2000, ranked first as the least corrupt nation in the world for four consecutive years to 2003.

At the Ethics and Integrity Conference last August, Abdullah who was then the Deputy Prime Minister had declared that the government possessed ample political will to ensure that the scourge of corruption was eradicated in both the public and private sectors, that “"Nothing else will do" as the Government had “zero tolerance for corruption”.

With such public commitments by both the Prime Minister and the Deputy Prime Minister for a corruption-free Malaysia by last June, DAP submitted a memorandum to the ACA that it accept this challenge to draw up a 10-year Anti-Corruption Action Plan to compare with Finland and be ranked among the world's five least corrupt countries in the annual TI CPI by 2013, with progressive targets set for the intervening period, such as:

- To be ranked among the 25 least corrupt nations by end of Eighth Malaysia Plan in 2005;
- To be ranked among the 15 least corrupt nations by Mid-Term Review of Ninth Malaysia Plan in 2008;
- To be ranked among the 10 least corrupt nations by end of Ninth Malaysia Plan in 2010; and
- To be ranked among the five least corrupt nations by 2013

It is most disappointing however that we have as yet to see the political will to really root out corruption, especially in high political places.

Why has the National Integrity Plan come out with the very modest five-year target from 2004-2008 to improve Malaysia's 37th placing in the Transparency International (TI) Corruption Perception Index (CPI) 2003 to 30th place, i.e. improvement of seven placings in five years – when we fell 14 places in nine years from 23rd ranking in 1995 to 37th placing last year in the TI CPI?

Even if we the government is wary of the DAP proposal for a ten-year action plan for the country to be ranked among the world's five least corrupt nations in the annual TI CPI, the least that a government committed to clean, incorruptible, accountable and transparent administration should seek to restore Malaysia's TI CPI ranking in 1995 in five years – i.e. to be ranked 23rd in the TI CPI by 2008!

As I asked during my supplementary question this morning, political will to have a no-holds-barred war against corruption is singularly lacking, particularly after the landslide Barisan Nasional general election victory in March, as could be seen from the failure to net anyone of the 18 “high profile” corruption cases.

Deputy Minister Kayveas had implied that my reference to 18 “high profile” corruption cases had been baseless, when he should know that it was a Cabinet Minister, then Minister in the Prime Minister’s Department, Datuk Seri Dr. Rais Yatim, who made the revelation in February this year.

Malaysians are entitled to know why not a single one of these 18 “high profile” corruption cases had been nabbed and brought to court – and whether this is proof of the absence of political will to back up the rhetoric to eradicate the scourge of corruption – which means that the National Integrity Plan will finally be a toothless one, and Malaysia may follow the footsteps of Bolivia, of a country where the launching of a National Integrity Plan could not check the cancer of corruption.

I am still waiting, for instance, for a proper explanation for the Barisan Nasional full-page advertisement in the Chinese press during the March general election confessing that the Barisan Nasional government was “corrupt and rotten” to the very core and asking the voters to support the new Prime Minister to become a modern-day Justice Pao. The Minister in the Prime Minister’s Department, Datuk Seri Nazri Aziz had misled Parliament when he had replied to me in May that the Barisan Nasional government had not authorized such an advertisement, and I hope that Parliament and the country would be given the correct picture.

I want only to say that if Abdullah is indeed a modern-day Justice Pao to stamp out corruption, it would not be 18 “high profile” corruption cases who would be nabbed and prosecuted in court, but hundreds of such “high profile” corruption cases.

The 2005 Budget Will Only Be A "Small Man's" Budget If Substantial Tax Deductions Are Offered For Education And Health Requrirements And Address The Problems Of Small Businesses Left Out By The 8% Economic Growth

The 2005 Budget will only be a "small man's" budget if substantial tax deductions are offered for education and health requirements and also addresses the problems of small businesses left out by the 8% economic growth. Even though the BN-controlled media have lauded the Budget as a small man's budget, only the civil servants and security personnel are the main winners.

As for the ordinary man in the street, the 2005 have not brought any significant gains to his educational and health needs. Based on the Government's 2005 Federal Government's Revenue estimates, the direct tax benefits for the poor man amounts to only RM 4.3 million (RM 2.2 million from the increase in tax rebate for computers by RM100 and RM 2.1 million from the increase in tax relief by RM 200 for the purchase of of books).

Increasing Tax Relief Per Child

The RM94 million from the RM 1,000 increase in tax relief for insurance and EPF payments is helpful but does not make a significant impact towards the educational needs of ordinary families. A more effective measure is to:

- increase the tax relief of an unmarried child below 18 years old by 50% from RM 800 per child to RM 1,200 per child;
- increase the tax relief of an unmarried child above 18 years old studying in Malaysia by 50% from RM 3,200 per child to RM 4,800 per child;
- make the tax relief of an unmarried child above 18 years old studying overseas (presently only RM800 per child) be the same as those studying in Malaysia to RM 4,800 per child; and
- increase the tax relief for medical insurance to RM 3,000-00.

There is no reason why there is discrimination between children studying locally and overseas as they are still students. The government must remember that most students prefer to study locally as it is cheaper. They are forced to study overseas only because they can not places despite securing excellent results.

Channelling Some Of The Extra RM 291 Million Sin Taxes To Alcohol And Smoking-Related Diseases.

The Government is expected to collect an extra RM 291 million from the increase in excise duties of alcohol and liquour. Since those who smoke and drink have to pay more, the government should channel a major portion of the RM 291 million collected to alcohol and smoking-related diseases such as lung and liver diseases. It is only fair that there is some assistance for their health problems later when smokers and drinkers have paid extra for smoking and drinking.

Is The 8% Economic Growth A Prosperless Growth?

For the first time there is no feeling of well-being despite the government's announcement of good 8% economic growth in the second quarter. Ordinary Malaysians can not understand this "prosperless" growth unlike in the past a great sense of "good times" when there is an 8% economic growth.

That is why the government should not discriminate in its issuance of loans. The government should open up the RM2b allocation for the New Entrepreneur Fund to promote new productive capacity limited to bumis to all Malaysians. It should also allow the 4.5b allocation for Small Medium Enterprises in both export and domestic oriented sectors to be used to search for new markets in future emerging markets like China and India.

The government should make more efforts to help all Malaysians who feel prosperless despite the 8% economic. Questions have been asked whether leakages from the economy such as corruption and mismanagement has caused ordinary Malaysians to lose out. Despite the Prime Minister's emphasis on wiping out corruption, there is still an increase in overall deficit of state governments (where extensive corruption occurs) to RM1.71 billion, the frequent exposes in Auditor-General reports where medicines are bought at 36% above market prices by the Health Ministry even though there is an open tender, unresolved scandals like Perwaja and the failure of Tenaga Nasional Bhd to collect hundreds of millions of ringgit owed more than a year from a few companies.

At a time when even a 8% economic growth is prosperless to some, DAP urges the government to be careful in its proposed implementation of a Goods and Services Tax(GST). A GST can have a direct impact on the price of basic necessities bought by the poor. With a GST, even if the poor need not pay any income tax, they are paying an indirect tax through the GST.

Furthermore, can the Internal Revenue Service(IRS) cope with all the extra filling of forms when it is already facing problems with the implementation of the Self-Assessment system for income tax this year? When a simple matter like timely refunds of taxes within a month requires personal attention of the top government leaders, questions are raised about the IRS ability to cope. The government should not fix a time frame but ensure first that all the problems can be worked out and that the poor will not lose out before deciding when to implement the GST.

Substantial cost savings can be obtained from successfully combating corruption. Sadly, corruption at the local government or state government has not improved.

Making local government more accountable and democratic would greatly help in fighting corruption. The time has come to restore local government elections banned in 1965 because of the Indonesian Confrontation. There is no reason why local councillors can not be elected when the Prime Minister has to be elected by the people. The time has come to restore democracy and allow the people to elect their own local councillors again after 40 years.

Are Proton and an automobile-dependence culture sustainable?

One of the most glaring omissions and a major disappointment of Budget 2005 is that the Prime Minister has not clarified the government’s position on Proton (Perusahaan Otomobil Nasional).

The Government has yet to pronounce a coherent policy since the Prime Minister took over the reign from former PM and the architect of Proton, Tun Dr. Mahathir Mohamad, almost a year ago.

It is a reflection of Abdullah's leadership and authority that he has not come out with a clear position, as the market and the public have been given conflicting signals!

Several issues pertaining to Proton need immediate attention:

1. Who is in charge of the policy and decision-making on Proton? Abdullah or Mahathir?
2. Is there a time-table or a dateline set for Proton to seek a foreign partner? Is Proton taking its sweet time to look for a foreign partner "at our own pace", as suggested by Dr. Mahathir?
3. Is Proton prepared for ASEAN Free Trade Area (AFTA) in 2005, when duties are to be reduced to 20%?
4. Is Proton sustainable after 2008, when the 5% maximum tariff mandated by AFTA takes effect in Malaysia?
5. Where is the long-rumoured and awaited National Car Policy?

The question of Proton is a test of whether the Abdullah administration is competent in economic management. Failure to address the Proton question would have far-reaching ramifications for the Malaysian economy. For example, Malaysia's compliance with AFTA would be used as a yardstick for future FTA negotiations with other countries, such as United States of America.

Policy Failure

Proton has been sheltered from competition through tariff protection since the first Proton car rolled off the assembly line. Under the nationalist economic policy formulated by the former Prime Minister, Malaysia would enter the industrialized world through an economy driven by heavy industries, particularly the automobile sector.
He was inspired by the Japanese/Korean economic models whereby car industries became the engine of growth while the entire nation subsidized the growth by paying high prices for cars in the initial stage. The hope was that Malaysia would eventually build a viable automobile sector that export cars to the world market like Japan and Korea. Malaysians have since been paying extremely high prices for cars (in the form of excise duties for Proton and tariffs for foreign-made cars) in order to support our nascent automobile industry. The "initial" stage has been a good twenty years. Proton is now a big baby that still cannot stand on its own. It may never be able to do so.

However, the strategy failed. Its failure is inevitable. As a latecomer, the world automobile market has already been too crowded with producers and cars by the time Malaysia entered the fray. Proton has no choice but to sell it to Malaysians. Export only account for less than 5% of its output. This defeats the initial purpose of pouring the national resources into the car industry.

Further, it is not viable for a small country like Malaysia to sustain a car industry. A commentator rightly commented that “No country without a population and a GDP of at least US $ 500 billion has been able to sustain an independent, mass-market car manufacturer.” (Malaysia has a population of 25 million and its 2003 GDP was less than US $ 100 billion) (Far Eastern Economic Review 15/7/2004)

Worst still, until recently, Proton has no technical know-how. The so-called “technological transfer” did not take place during its 20-year partnership with Mitsubishi. It came only after Proton took over British company Lotus.

Furthermore, Dr. Mahathir’s nationalist thinking behind the inception of Proton proved to be fatal when it was outsmarted by the alternative policy path pursued by Thailand. Thailand has no national carmaker and no need for measures to restrict foreign vehicle operations within the country. It has now claimed the title of the ‘Detroit of East’, and benefiting from its position as the vehicle assembly and export hub of Southeast Asia. All members of the ASEAN free trade area are under pressure to reduce automobile and parts tariffs to five percent by 2003 under the regional trade pact. Thailand will be the main beneficiary of the tariff cut. And, here lies the policy failure of Dr. Mahathir with regard to Proton and the challenge for the Abdullah administration to overcome the legacy of Mahathir.

Conflicting Signs

The hopes on Abdullah to resolve the Proton question pragmatically have since been dashed by several conflicting decisions.

In January, the Government attempted to prepare for AFTA by cutting import duties on motor vehicles and parts with its right hand but slapped excise duties with its left hand. Proton was given a 50% excise-duty rebate. The exercise became a joke as car prices went up with the new tax structure.

In April, International Trade and Industry Minister Rafidah Aziz told Proton to speed up its search for a foreign partner. Days later, Malaysians were shocked to know that the most ardent opponent of selling Proton stake to foreign company, Dr. Mahathir, was appointed the Advisor to Proton.

Mahathir subsequently gave a long interview with *The Edge* defending his failed nationalist policy by making a clear pronouncement that he “would like to see Proton remain under the control of Malaysian investors.” Proton was spared from the pressure to look for a foreign partner for a good three-month period.

In late July, Deputy Trade Minister Ahmad Husni Hanadziah told parliament that Proton must follow trends in the automotive industry for local car firms to merge with global giants. The PM later suggested that the government was open to the possibility of selling a major stake in Proton to foreign partner. However, a *Business Times* report quoted Rafidah Aziz as saying that the Government would not force Proton to take on a foreign partner.

So, is Proton going to have a foreign partner or not? Is the foreign partner going to hold a controlling stake?

We have no choice but to wonder who is actually responsible for the Government position on Proton and what is actually the Government's stance on the issue. Can Malaysia keep Proton as it is in the face of AFTA and other challenges?

This led us to another question: where is the National Automobile Policy? According to *Far Eastern Economic Review* (15/7/2004) and the *Star* (18/8/2004), a National Automobile Policy has been presented to the PM and waiting for clearance. The Budget 2005 was the best occasion for the PM to announce such policy but he has failed to do so.

Let us remind the Government that the global automobile industry is now undergoing an intense and rapid restructuring. There are some major mergers in the recent years resulting in bigger global car producer groups, such as DaimlerChrysler-Mitsubishi, Renault-Nissan, Toyota and etc. How will Proton fare when competing with a) car producers stationed in Thailand under the new AFTA regime; b) these huge global players in the extremely competitive car market worldwide? The Government owes the people an answer!

In addition, the National Automobile Policy should also define clearly what the Government meant by "national car". We are curious to know why two MPVs (multipurpose vehicles), one from NAZA modelled on the Kia Carnival and one from Hyundai-Berjaya modelled on the Hyundai Atos, were classified as "national cars" and given duty exemptions more favourable than Proton's despite the fact that these cars have less local content than Proton.

<u>National Transport Policy</u>

There is a social cost to the twenty years of "hard-selling" Proton to Malaysians. Malaysia has a total of 3.6 million registered vehicles in 1987. By the turn of the century, Malaysia has 5.3 million private cars, 4.1 million motorcycles and 1.1 million other vehicles including taxis, buses and commercial trucks, which worked out to a total of 10.5 million vehicles. The total of registered vehicles now stands at about 13 million. Every year, Malaysia sees about half-a-million new cars entering its already congested roads. It is extraordinary given that Malaysian population is only about 25 million people.

The vehicle per 1000 people rate in the Klang Valley is only marginally less than that of United States of America, Australia, New Zealand and Canada. It has more vehicles per 1000 people than that of Western Europe. It should be reminded that Malaysia is a developing country. At the same time, the utilization of public transport has declined from 34 % in 1985 to 16 % currently, which was identified in the Budget 2005 (Para. 32).

The escalation of private car ownership and the decline in the utilization of public transport coincided with the Proton venture. It is arguably a direct consequence of Government policy in promoting Proton and other national cars as the car company had to rely on local market after the failure of its export endeavours. In many ways, privately-owned vehicles are not a luxury good but a necessity in Malaysia.

It is high time for Malaysians to look into whether we can sustain such a high automobile dependency.

In this context, I would like to commend PM Abdullah Badawi for finally setting his sight on the transportation problems in the Klang Valley. Abdullah was right that traffic congestion in major cities have resulted in wastage of human resources and time, which led to a decline in productivity, as well as the quality of life. (See Budget 2005 Para. 31-35). However, we do not think that the measures proposed in the Budget are sufficient to address the long neglected problem.

I would like to remind Abdullah that as Deputy Prime Minister, he announced in 2001 that the Government was developing a more comprehensive National Transport Policy to increase efficiency, reliability and quality of the transportation system in the country (*Bernama* 7/9/2001) . We have yet to see such policy.

A comprehensive National Transport Policy would have to take into consideration land use, national car policy, urban development, etc. The Budgetary measures are flawed and not comprehensive because it only focuses on public transport in a particular area, i.e. the Klang Valley.

Transportation in the Klang Valley and Other Urban Centres

The Budget 2005 announced the roles of the Steering Committee on the Integration and Restructuring of the Public Transport System in the Klang Valley (Para 33), the increased responsibilities of Syarikat Prasaran Negara Bhd (SPNB) and the newly formed Rangkaian Pengangkutan Integrasi Deras (RAPID) KL (Para 34), as well as proposed a Klang Valley Urban Transport Authority as the regulatory authority for public transport in the Klang Valley (Para 35).

Let me remind the Government that the transport woes in KL and the Klang Valley do not arise from the lack of regulatory institutions. Quite to the contrary, too many agencies dealing with the transport sector without much coordination among themselves is the partial cause of the transport problems.

The Economic Planning Unit (EPU) of the PM’s Department, Ministry of Works, Ministry of Transport, Ministry of Entrepreneur Development and Dewan Bandaraya Kuala Lumpur (DBKL) all have a hand in the management of the transportation sector. Are they going to relinquish some of their roles to the new agency to ensure efficiency and effectiveness? For instance, would the Ministry of Entrepreneur Development cease to function as the regulator of buses and taxis?

Confining the Urban Transport Authority to deal only with public transport would never solve the transport woes in the Klang Valley which is essentially a failure of national transport planning. It has to be dealt with from a comprehensive national perspective in the context of a National Transport Policy

World Bank – Higher cost of doing business in Malaysia than Thailand

2005 will be the eighth year in which the Federal Government will run a deficit. It would appear that deficits are now a permanent feature of the policy package of BN Governments. The Prime Minister stated:

> “…..the overall Federal Government deficit is expected to be reduced to 3.8 percent of GDP. Of this, RM89.1 billion or 75.9 percent is for Operating Expenditure and RM28.3 billion for Development Expenditure. In this regard, the Government has successfully implemented consolidation measures, which have contributed to a significant reduction in its fiscal deficit from 5.3 percent in 2003 to 4.5 percent of GDP this year and 3.8 percent in 2005.”

What the Prime Minister did not state was that while operating expenditures will continue to climb. The expenditure growth is a case of a little here and a little there. Development expenditures will be scaled back to give the illusion of fiscal responsibility. The revenue side of the budget will be largely untouched and revenue growth will be far below economic growth.

The statement about deficit reduction runs against the historical record. In each budget presentation, the nation is told that the deficits are going to be lower in the year ahead. Yet when the final accounts are delivered, the deficit recorded is larger.

Deficits do matter – they create a burden on future generations of Malaysians; they introduce distortions in several other ways. The financing of these deficits through borrowings translates into less resources being available to the private sector for investment and increasing long term competitiveness. In this context I would like to quote from the IMF public announcement following the IMF Executive Board discussion of the Annual Consultations with Malaysia in 2003:

> "However, the historical trend continues to indicate that public sector debt has been growing at a faster pace than implied by the net financing requirements of the consolidated public sector reflecting—in part—operations not captured by the consolidated accounts, including the acquisition of public assets and the assumption of debts by the federal government."

The budget therefore is longer a transparent instrument. Off budget expenditures now run in the billions. This House is not informed nor its consent sought. The budget now presented continues this practice. This cannot stand if the Prime Minister wishes to remain credible on the issue of achieving greater accountability and transparency.

At that same discussion of the Report on the Article IV consultations other concerns were expressed. I quote:

> "In particular, they(the Directors) encouraged the authorities to disseminate more detailed information on the fiscal costs of exemptions and implicit subsidies, and on the quasi-fiscal expenditures of the nonfinancial public enterprises. The government was encouraged to look into the scope for further divestment from major corporations
>
> "Directors stressed the importance of monitoring closely tax revenue performance and further exploring ways to rein in the growth of nonwage operational expenditures. Directors welcomed the recent steps taken to reduce noncore investment spending, and encouraged the authorities to persevere in their efforts to streamline the public investment program. Directors recommended that the authorities look into the scope for reining in the recent increases in expenditures on subsidies and transfers, while ensuring that an adequate social safety net remains in place to protect the most vulnerable groups".

These are far reaching admonishments delivered by the IMF, couched in the cryptic language it uses. There has been no indication from either official pronouncements or in the budget speech that the Government has taken heed of these concerns. The Government appears to be sailing full steam ahead to a potential disaster and gives on indication of a course correction.
It would appear that the lessons of the 1998 crisis have not been learnt. I do not wish to be an alarmist but the fiscal neglect could well be a trigger for the next crisis. And that crisis may come sooner than latter as the flawed policies of the US Government, rising inflation will trigger higher interest rates. Malaysia is not isolated particularly as its currency is pegged to a falling US dollar.

Let me turn to the rising debt service burden (domestic and foreign). It accounts for almost a quarter of the recurrent expenditure budget. It is significant that the Speech made no reference at all to this aspect of expenditure. Debt service on this scale reduces the resources available for other priority spending to meet the people's needs.

Another aspect of the fiscal situation concerns revenue. In 2005, government revenue is expected to rise 2.2 percent to 99 billion ringgit. This is indeed most curious. If the forecasted GDP growth rate is of the order of 6 percent, why is it that revenue will only grow by 2.2 percent? This is most odd given that tax rates have not changed except very marginally.

Competitiveness

Let me address the issue of competitiveness. This indeed is the greatest challenge Malaysia faces as new economic giants – China and India emerge – with huge domestic markets, strong indigenous technological bases, offering new and attractive opportunities for FDI. Where does Malaysia stand? A small market, dependent on foreign markets; a virtually non existent domestic technology base and an economy in which the cost of doing business is considerably high relative to its competitors.

The high cost of doing business in Malaysia has been well documented in a recent global study by the World Bank. The ***Doing Business Database*** provides objective measures of business regulations and their enforcement. The Doing Business indicators are comparable across 145 economies. They indicate the regulatory costs of doing business and can be used to analyze specific regulations that enhance or constrain investment, productivity and growth. How does Malaysia fare? Some highlights from the Database are in order.

Doing business in Malaysia

- There are a total of 9 procedures for starting a business in Malaysia and it takes a total of 30 days to complete the process at a cost of US $965. Of the 30 days 22 are connected with processes linked with registration. For Thailand there are 8 steps and although it takes 33 days the cost is US$159. And the registration process is far lower.
- Firing a worker costs 74 weeks of wages.
- Registering property involves 4 procedures and a total of 143 days against 2 procedures taking 2 days in Thailand.
- Protecting investors and disclosure : The Disclosure Index captures seven ways of enhancing disclosure: information on family; indirect ownership; beneficial ownership; voting agreements between shareholders; audit committees reporting to the board of directors; use of external auditors; and public availability of ownership and financial information to current and

potential investors. The index varies between 0 and 7, with higher values indicating more disclosure. Malaysia scores at 5 where as Thailand has a higher score at 6.

- Enforcing contracts: Malaysian procedures number 31 and take a total of 300 days at a cost of 20% of the debt. The comparable numbers for Thailand are 26, 390 and 13 %.
- Closing a business in Malaysia takes 2.3 years with 18% of the value of the estate and a recovery of 35 cents on the dollar. In Thailand, the numbers are 2.6years, 38% and 42 cts on the dollar.

I have chosen Thailand for comparison as it is one of our closest competitors. Similar comparisons can be done for any of about 140 countries. What these numbers illustrate is that we are a nation tied in red tap, a less than business friendly bureaucracy and with high costs in general. These telling statistics also convey another message: over regulation and inefficiencies in the administration create the conditions for corruption which ultimately is a hidden cost of doing business, somewhat hard to quantify.

However, competitiveness goes beyond these quantifiable aspects. It can hardly be denied that Malaysia has lost an advantage with the deterioration of the comparative skill pool of its work force linked with the lowering of educational standards. The latter can be attributed to the foolhardy educational policies that the BN has imposed on the nation over its long tenure of office. The chickens come home to roost and Malaysia stands on the edge of further losses in competitiveness.

The budget addresses none of the underlying failures. It does not address the serious aliments. Educational reforms are of the utmost urgency; yet nothing is said in the budget. The malaise is supposedly to be addressed through throwing more money rather than by a serious and honest assessment of what is wrong and the adoption of policies that correct the fundamental flaws. It is indeed sad that the Prime Minister could say little about how the educational system is to be revitalized beyond creating 12 Special Grade C posts on a personal to holder basis for Guru Cemerlang and 5 JUSA C posts for Pengetua Cemerlang. No one would oppose the creation of these “cemerlang” posts but how do they contribute to creating a quality education system?

There are yet other dimensions to ensuring that Malaysia regains its competitiveness. I refer in particular to the pegging of the ringgit to the US Dollar. The peg was introduced as a temporary measure in 1998 in the midst of a devastating financial and economic crisis to bring stability in the exchange rate, to permit exporters to regain a competitive edge, and to pursue reforms.

The decision to resort to an unorthodox approach was criticized and debated. I do not think it is appropriate to reopen that debate. What is appropriate however is to pose the following questions: Is the ringgit peg serving Malaysia’s best interests in the current circumstances? Is it time to alter course? What are consequences for restoring competitiveness?

I have been advised that the following is a broad review of the the impact of the peg:

- The peg benefits exporters to the US market. However it disadvantages those who export to other markets –Japan and the Euro markets – given the depreciation of the US dollar and thus of the ringgit. From the direction and composition of our exports, the nation as a whole loses by earning less ringgit earnings from the diversified non-US markets.
- A substantial part of Malaysian imports are from non-US sources. This translates into higher import costs in ringgit terms. The cost of intermediate goods rises and is ultimately incorporated into our export costs rising. Various studies have shown that Malaysian exports of manufactures have high import content. It is therefore clear that export competitiveness is being eroded. Most capital goods are from non US sources. With the appreciation of the Yen, the Euro and other currencies against the US Dollar, Malaysia faces rising cost for the investment goods it imports.
- A substantial part of the Malaysian external debt is denominated in non US dollar terms. This translates into higher debt service in ringgit terms. With rising interest rates forecasted in the year ahead, and a sharp downward adjustment in the value of the US dollar, there will be an indirect impact on the ringgit versus other non US currencies thus aggravating the adverse trends already in place.
- The adverse impact will be felt by exporters, importers and debtors.

There is an urgent need to revaluate our exchange rate policies. I urge the Prime Minister to initiate an independent study. There should be an independent and honest appraisal because leaving it to the Ministry of Finance and Bank Negara would be inappropriate. These two institutions are headed by the two principal architects of the policy – namely the Governor of the Bank and the Second Finance Minister. The urgency is underlined by the significant changes that are anticipated in the standing of the US Dollar, rising interest rates at the global level and somewhat slower growth in world trade in the year ahead.

The Prime Minister needs to be reminded that this is not a party political issue. The call for a review of the policy has come from a variety of respected sources that include the Malaysian Institute for Economic Research, the IMF Board of Directors and academics that have sound credentials.

I would like to draw the Prime Minister’s attention to the following statement from the IMF following the discussion of the Article IV Consultations report:

> "…some Directors saw no convincing case to reconsider the peg at this time. At the same time—and with a forward-looking perspective—many other Directors thought that a move toward greater exchange rate flexibility would be beneficial for Malaysia if it were well prepared, pursued from a position of strength, and carefully sequenced. Such flexibility would help to manage risks associated with capital flows, alleviate the burden of adjustment on fiscal policy to deal with shocks, and facilitate adjustment to structural changes in the economy."

The language quoted above reflects a majority view and is objective and measured. The position taken appears to be balanced and does not go back to the earlier orthodoxy of the IMF that was a red rag to the previous Prime Minister/ Minister of Finance. The Prime Minister should note that that nation runs high risks of yet another crisis if the Government chooses to ignore somber advice. Let not false pride stand in the way of taking measures that new circumstances demand; let us not cling to positions that may have been correct once, but are no longer in the interests of the nation.

Regaining competitiveness demands actions on many fronts and the review and adoption of new exchange rate policies is but one such action.

Agriculture as the growth engine

Hopes for *"Accelerating the shift towards a higher value-added economy"* rest largely on the Government's intent to move towards a greater reliance on the agricultural sector as a growth engine. Since this policy goal was re-emphasised when the present Prime Minister took office in late 2003, little has emerged by way of a coherent, carefully thought through strategy.

What we have heard are broad statements of intent, a rather loose distribution of resources, continued in the current budget for a series of unconnected projects directed at parts of the country and narrow constituencies that once were the base for UMNO who are increasingly leaning towards PAS. To this extent then, question that can be posed is: Is the so called agricultural strategy really a strategy to regain and consolidate the support of those who have deserted UMNO or are likely to do so in the medium term?

Even if this assessment is wrong, it is wholly legitimate to raise the following questions:

- Malaysia is no longer rich in land. Land policies, such as they are, are fragmented and subject to the control of those who wield power at the state level. How then will the Federal Government ensure that land is available to those who wish to venture into agriculture?

- The labor force in the rural areas lacks skills to pursue commercial agriculture. What steps is the government planning on to address this gap, particularly in the face of poor agricultural extension service?
- Viable commercial agriculture demands the infrastructure to support the extension of credit and the marketing of the output. Which are the institutions that are in place to deliver these services efficiently?
- Does Malaysia really have a comparative advantage versus other countries that have a stronger base in commercial agriculture? What studies has the government done to base its so called agricultural strategy?
- In the 1960s and 70s agricultural diversification was a key policy, yet it enjoyed modest success. What were the lessons and how are they to be applied?

Developing Human Capital

The third prong of the budget strategy is: "*Third: Developing human capital as a catalyst of growth."* There can be no disagreement about the validity of this statement.

What is urgently needed is a radical revamping of the educational policies being followed. This must start with primary through secondary to tertiary education. Meritocracy must be the overriding criteria, be it in the selection of students or teachers or academic staff. It is indeed shocking that after 47 years as a nation, there no non-Bumiputra Vice Chancellors or Deans in any of the public universities.

Satu Bangsa, and national unity cannot be built upon foundations such as these. In the early 1970s when the NEP was adopted, one of its tenets was that race would not be identified with occupation. Why have we regressed? Why have we denied and failed to implement a policy that was agreed to and accepted by all ethnic groups?

I call upon the Government to start a reversal of the process by appointing an All Party Educational Commission to formulate a truly national educational policy that recognizes the constitutional provisions concerning education, its central place in nation building and determining our capacity to be competitive. Education is a key to the future of this nation; it cannot be sidelined without grave consequences for us as a nation politically, socially and economically.

Parliament Select Committee in Tax Reform and GST

Yesterday, the Prime Minister Datuk Seri Abdullah Ahmad Badawi announced that the government would set up a eight-member Taxation System Review Panel, comprising three members from the public sector and five from the private sector, to formulate the details of the goods and services tax (GST) proposed in the budget speech for implementation in 2007. The panel will be headed by Kamariah Hussain, under-secretary at the Finance Ministry's tax division.

He also said that the government will continue to reduce the budget deficit though he does not foresee achieving a balanced budget by 2006.

He said the Government had been gradually reducing the budget deficit from 5.6% of the gross domestic product in 2002, to 5.3% last year and 4.5% this year, with a target for 3.8% next year. The gradual reduction in the budget deficit however must be seen in the backdrop of the government's failure to keep to the original targets of budget deficit in every budget presentation, namely 5% of the gross domestic product in 2002, 3.9% last year and 3.3% this year. The targetted budget deficit for next year, i.e. 3.8% of the GDP, is 0.5% higher than the target in the 2004 budget, and going by previous performance, where the targetted budget deficit had been missed by more than a full percentage point, the actual budget deficit next year after taking into consideration various supplementary estimates to come is likely to be even higher than 4.5% recorded for this year.

Is the current proposal to introduce the GST conceived as a solution to rebalance the budget, so as to increase tax collections to resolve the intractable problem of eight consecutive years of budget deficit?

The government should announce a roadmap and the timeframe for Malaysia to return to a balanced budget.

Apart from this eight-member Taxation System Review Panel announced yesterday, Parliament should itself set up a Select Committee on Tax Reforms to independently conduct studies and make its own input in the review of the tax system and in particular on the proposal to introduce a single consumption tax, the GST, to replace the sales tax and service tax, and paving the way for the reduction of corporate and individual income tax rates.

A Parliamentary Committee on Tax Reforms is important and necessary as it is the MPs who must finally decide by a vote in the House on the proposal of a single consumption tax, and MPs should not leave the issue solely in the hands of the eight-member Taxation System Review Panel. A Parliamentary Committee could fact have a larger remit that the Panel, as it could also look into the other limb of a balanced budget, namely cutting expenditures apart from devising new ways to extract revenue from the economy.

Indirect taxes like GST are more regressive than direct taxes like corporate and individual income taxes, as the higher one's income, the smaller portion of that income goes to pay the tax, and vice versa – resulting in greater tax burden on the poorer strata of society as a share of income.

Abdullah has said that the government will ensure that the low-income group will not be burdened by the implementation of GST, and that goods and services considered as basic needs will either by zero-rated or exempted, and that small businesses will also be exempted from this tax.

Such assurances however have not been able to dispel concerns that a GST will create greater hardships for the lower-income earners, erode the competitiveness of small and medium-sized enterprises and may not be the most appropriate mechanism to improve the efficiency of the tax collection system.

There is very well-argued letter in the *New Straits Times* today on ***"GST will hit SMEs, individuals"*** by Andrew Fan, illustrating how a broad-based consumption tax imposing a levy on almost all goods and services does not benefit the average wage earner as it reduces purchasing power and hence quality of life.

Let me use his illustrations:

An individual earns RM35,000 a year (RM2,916 a month). His income tax for that year is RM1,526 a year. That means his effective disposable income is RM33,474.

Assume GST of five per cent is applied. Everything this individual buys will be more expensive by five per cent, causing his real disposable income to decline to RM31,880 (RM33,474 divided by 105 per cent).

This means the GST cost to the in individual in real terms is RM1,595.

Given this scenario for an individual, the government's suggestion to lower the effective income tax rate to compensate for GST rings hollow. Even if income tax rates dropped to zero, it would not cover the GST cost.

This calculation is even more damaging for the individual after factoring in rebates, deductions on income tax and lower effective income tax rates for lower wage earners.

Secondly, GST is bad for SMEs. Most SMEs lose money or make very little money at the beginning. Therefore, they pay no or very little corporate tax during this period. GST, however, will impact a small business from day one. From day one, it will have to charge its customers more for goods or services and this will lower demand for its offerings.

As MPs will have to make the final decision on the GST, Parliament should have its own Commission to study tax reforms in general and a single consumption tax in particular, to fully consider the pros and cons of a GST, its impact on the average wage-earner and the poorer sections of society, the costs of doing business particularly for SMEs and the efficiency of the tax collection system.

DAP calls for greater EPF efficiency, accountability and transparency of investment polices and performance

The budget announcement that the Employees Provident Fund (EPF) would be allowed to double the size of its funds placed with local fund management companies, including non-bank owned companies from RM6 billion to RM12 billion within three years has again raised to the fore the important issues of efficiency, accountability and transparency of EPF investment policies and performance.

During the recent general election in March, the Malaysian Trades Union Congress (MTUC) came out with a general election manifesfo on issues which concerned the workers, chief among which include:

- Proposed merger of EPF and SOCSO and all gains utilized to grant enhanced benefits to contributors;
- Fifty percent worker representation on the Boards of EPF and SOCSO;
- EPF Act amended to provide a minimum dividend of 8% per annum;
- SOCSO Act amended to provide full payment for employees who are temporarily or permanently unfit for work and provide 24 hour coverage against accident risks; and
- Minimum monthly salary of RM900 for all sectors including plantation sector.

The shock of the lowest EPFs dividends in four decades 4.25 per cent for 2002 and 4.50 per cent last year , has made more and more of the 10.4 million EPF contributors demand a proper and rightful say in the security and quality of the RM220 billion EPF monies which constitute their life savings for their retirement.

A long-time EPF insider who served for a decade on the EPF Investment Panel until 2001, Dr. R. Thillainathan, offered the sharp critique of the EPF in a recent World Bank conference that EPF's performance as a retirement scheme is "not satisfactory".

He said:

> "EPF's retirement scheme has not adequately addressed a contributor's market or longevity risks. There has also been a failure to run EPF on a portfolio basis and to restrict its exposure to portfolio risk. In fact, there has been a tendency to take unnecessary business or credit risks.
>
> "There has also been a failure to run EPF in the best interest only of its members.

> “These failures have raised serious governance issues.
>
> “EPF’s management practices with regard to accounting, performance measurement and dividends declared depart from private sector best practices.
>
> “This had distorted the behaviour of EPF’s regulator and fiduciraries, caused a serious mismatch in the interests of its regulator, fiduciaries and contributors and therefore led to EPF’s mal-governance.”

Among Thillainathan’s criticisms are:

<u>EPF Investment Panel</u>

Members appointed and can be removed at the pleasure of the Finance Minister. No independent bodies, like Parliament or other expert committees, are consulted on the appointment. Independence of a member of the EPF Investment Panel requires him to declare his interest and abstain from voting on any interested party transactions, but a member is not required to pre-clear his trades or to report on his investment activity

<u>Accountability and Liability</u>

Risk and returns are for the account of the contributors but they have little or no control on investment choices. Contributors are in no position to discipline members of the Investment Panel against bad management because they have no powers. Personal liability of an Investment Panel member is not well-established in law.

<u>Regulation & Supervision</u>

Ministry of Finance is regulator and supervisor of EPF. But it does not have requisite expertise to do this job especially given its many other equally important job functions. Where regulator and regulated are both government bodies, as is the case with MOF and EPF, regulator has been less able or willing to go public with criticism of the regulated.

<u>EPF & Governance Issues</u>

Risk is borne by contributor but investment decision is exercised by EPF. Arrangement potentially explosive.

<u>Contributor vs Regulator</u>

To avoid conflict of interest between contributors and regulator, EPF has to be operated in the best interest only of contributors. Promoting “development” should not be a goal. Conflict of interest between MOF as regulator & government as EPF's biggest borrower.

And the following are some of Thillainathan's proposals and conclusions:

- Good governance requires qualified and independent governors who can be held accountable and liable.
- Weaknesses in regulatory, supervisory and accounting framework have made for weaknesses in governance framework of EPF.
- Easier to reform accounting and audit framework of EPF to ensure EPF's performance measurement and report adheres to best practice.
- Good accounting and disclosure will minimize distortion in behaviour of EPF's fiduciaries.
- If poor financial performance does not get properly reported because of weaknesses in the accounting and disclosure framework, then it will be more difficult to bring about changes in governance practices.
- In any reform of governance practices priority should be given to reform of the accounting of a pension fund and the fund should be audited by an external auditor from private sector who can then be held liable for negligence or fraud.

Something is clearly very amiss with the EPF management, investment and governance, warranting a major revamp to safeguard the rights and interests of the EPF members. What is at issue is not just the lowest dividend in 40 years for the past two years, but how best to protect the future of EPF.

The time has come for EPF to set an example of accountability, transparency and good corporate governance and I call on the Prime Minister to give his support for the establishment of an EPF Contributors' Association to protect the rights and interests of the 10.4 million EPF contributors with their total funds of over RM220 billion and to direct the EPF to give full co-operation to the EPF Contributors' Association.

Refusal by Commercial Vehicle Licensing Board to renew Lesen Pembawa C for its fleet of eight oil tankers of transport company, Magna Array Sdn. Bhd. For having no bumiputra director unconstitutional, abuse of power detrimental to national unity and mockery of Vision 2020

I said yesterday that one distinguishing characteristics of the maiden Abdullah budget should be justice, but this is a value which is more often observed in the breach.

After the general election in June this year, a private company Magna Array Sdn Bhd found to its shock that its application for renewal of Lesen Pembawa C for its fleet of eight tankers was rejected by the Commercial Vehicle Licensing Board because it did not have a bumiputra director.

The company changed ownership in May 2002, with three Malaysian Chinese directors replacing the old Board of two Malaysian Chinese and one Malaysian Malay director.

In rejecting the company's application for renewal of Lesen Pembawa C for its fleet of eight oil tankers, Lembaga Pelesenan Kenderaan Perdagangan, Kementerian Pembangunan Usahawan dan Koperasi in a letter dated 17th June 2004 said:

"Dukacita dimaklumkan bahawa permohonan tuan tidak dapat dipertimbangkan oleh Lembaga Pelesenan Kenderaan Perdagangan dan ditolak dengan alasan Tuan adalah dinasihatkan supaya ada bumiputra dalam Ahli Lembaga Pengarah syarikat tuan."

The Lesen Pembawa C for the fleet of oil tankers for Magna Array Sdn. Bhd. are ordinary licences and there was no condition that they are meant for bumiputras or must have bumiputra participation.

It is unfair, an abuse of power, unconstitutional, detrimental to national unity and a mockery of Vision 2020 for a government agency to move the goal post and impose a new condition of bumiputra participation by requiring a bumiputra director when there had been no such previous condition and after a change of ownership.

Appeals to the Lembaga Pelesenan Kenderaan Perdagangan had been ignored, although the Board knows fully well that this is tantamount to crippling the operation and even survival of the company, after an investment of over a million ringgit in buying over the company.

I understand that this is not an isolated case, and that such abuses of power and unconstitutional actions by government agencies is quite commonplace – adding not only to the cost of doing business but seeding alienation and resentment about the government's nation-building policies.

I call on the Prime Minister to personally check such abuses of power and unconstitutional action of the Commercial Vehicle Licensing Board and to send out a clear directive to all government agencies to respect the constitutional rights of all Malaysians, whether bumiputras or non-bumiputras.

Call for reason for the imposition of 7% import duty on uncoated woodfree printing and writing paper from 29th July 2004

The Finance Ministry should give the reasons for the imposition of 7% import duty on uncoated woodfree printing and writing paper from non-ASEAN countries with effect from 29th July 2004.

The sole local supplier, Sabah Forest Industries (SFI) is unable to meet the total local demand for uncoated woodfree paper estimated at 300,000 metric tonnes per annum, as SFI can only produce at maximum 150,000 tonnes per annum of low-end woodfree paper, which are used for school and exercise books and non-demanding printing materials.

The quality of the paper produced by SFI is regarded by the local market as of lower quality to their needs. As a result, high-end woodfree paper, used for printing such as high-speed continuous printing, four-colour printing, laser applications, etc and value-added paper-based industry have to be imported.

The major paper suppliers for Malaysia had been Indonesia, Thailand, Japan, Taiwan, Finland, Brazil, USA, India, China and Russia.

By imposing the 7% import tax, the Malaysian paper industry is now forced to import high-end paper from Indonesia and Thailand which are free to hike prices because non-ASEAN exporters have been priced out of the market.

This is detrimental to the interests of the Malaysian public, who have to pay more for paper consumption as well as the local value-added paper-based industry by undermining their competitiveness in the world market as a result of the increased costs of their paper raw materials.

The beneficiaries are paper mills from Indonesia and Thailand. But how has it benefited the SFI which had requested the imposition of the import duty on uncoated woodfree paper when it does not have the capacity to meet the total local demands for low-end uncoated woodfree paper. It also does not have the capacity to supply high-end paper. Or are there higher corporate and government forces at work which are not apparent to the naked eye?

The question that Parliament wants answer is the rationale for the 7% import duty for uncoated woodfree paper and how it could benefit the country as a whole when (i) it results in the increase in the price of paper generally affecting all consumers; (ii) it undermines the exports and competitive edge of local paper-based industry in the world market; (iii) the possible retaliation against Malaysian paper-based finished products to non-ASEAN countries such as Europe, US and Japan for the discriminatory treatment against their paper by imposing import duties on our products; and (iv) when SFI, a private company, also does not directly benefit from such an import duty.