Special Supplement

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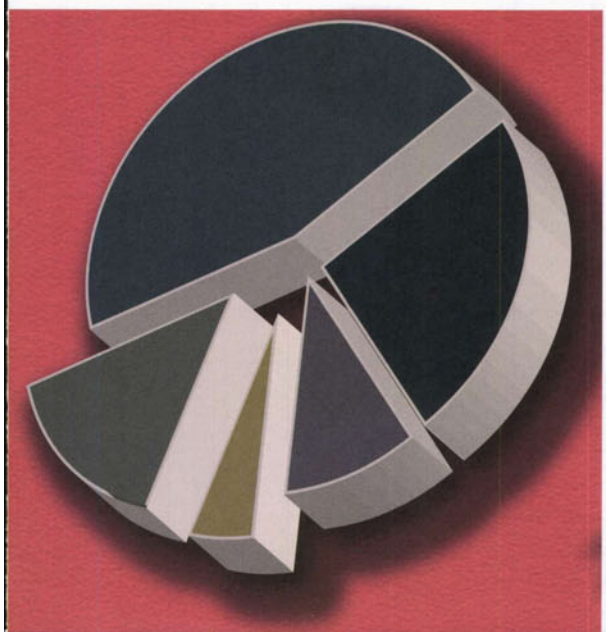
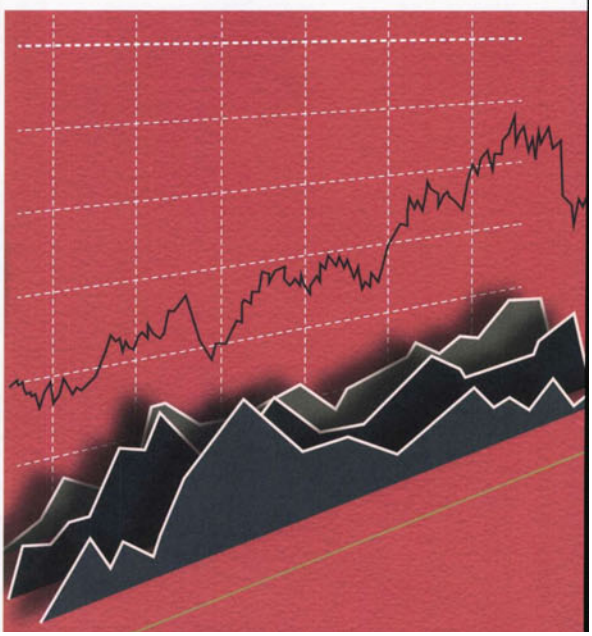
BUDGET 2018

Inside:





Let's be bolder, say experts

Budget 2018: *MALAYSIA SME®* panel discussion

Datuk Dr Andy Seo,
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Dr Veerinderjeet Singh,
Executive Chairman, Axcelasia Inc

Professor Dr Yeah Kim Leng,
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MALAYSIA SME® brought together five experts to get feedback on the recent Budget. The general consensus – a generous Budget, but perhaps we should be bolder in cutting spending, taxes, improving governance and having a more laser-like focus on targeting industries, talent and technology. Below, an edited version of the conversation.

Seo: The manufacturing sector is very happy because there is a lot of emphasis given to manufacturing, including Industry 4.0. The Budget focuses on Industry 4.0 and the digital economy. They go hand in hand. To build on that, it also focuses on education, training and moving towards Technical and Vocational Education Training (TVET).

It also addresses the specific multifaceted requirements of SMEs which includes financing, export promotion, entrepreneurship as well as sector specific needs of SMEs in tourism, transportation, green technology, and the halal and creative industry. Other targeted groups within the economy include women, micro-enterprise, youth and Bumiputra.

Yeah: Can I just add to Datuk Seo's broad perspective. This is an expansionary budget, not just in terms of increased spending but in terms of whether it has inflicted any pain on businesses in terms of raising (tax) revenue. We see no new taxes introduced despite earlier speculation of inheritance taxes, capital gains taxes, etc. In this sense, the government has kept to their promise.

Ng: I also agree that this is a commendable budget. I agree with Professor Yeah that it is an expansionary budget. The government needs to spend to improve the economy. And I noticed that they are stressing on infrastructure and logistics, which I believe is because of the TN50 vision.

As Professor Yeah said the key is that there are no additional taxes. But the message the PM said in his budget is there'll be an increase in revenue collections through direct taxes and indirect taxes. Because there are no new taxes, I think the way he will increase it is through compliance especially with the GST in its third year now. That's the area they'll look at to fund all the investments that the government is doing. But overall the budget is trying to cover all areas.

Yong: This is a reactive budget addressing long overdue issues. The issue is that it spread too far and was lacking in any core growth strategy. In terms of Industry 4.0, the issue is how we address this shortage or lack of maturity in infrastructure. Besides giving money and grants, we need to organise a system which helps SMEs to implement the technology more easily.

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> —Yong

We are lacking, specifically in technology, in terms of Cloud we are way behind. But that is also an opportunity for us because all of SEA is behind, except for Singapore.

I would urge the government to think - besides giving money, pledging grants, we should actually appoint and organise a system where it helps them to do things easily. For this, certain industries must be prioritised.

For example, the furniture industry in Malaysia is one of the best in the world. It is number eight or nine in the world, but they are facing problem such as lack of workers. Also technology related issues, for example they don't have robotic chain manufacturing. So we should focus and help such industries and not spread for all the industries. But for the industries that are more competitive, like the furniture industry, it could be number one in the world. We already have the legacy. We should look at the legacy and the strengths of the industries in Malaysia.

Veerinderjeet: There are only two Thrusts of the Budget focused on businesses. The first is on investment trade and industry and the second is on fortifying the 4th Industrial revolution.

I agree with Professor Yeah that this is a budget where it could have been done better. They could have looked at managing the economy, rather than trying to manage the people.

We all know that this is clearly an election budget. But at the end of the day, we do accept that it is a responsible budget, in the sense that the fiscal consolidation 2.8% deficit is there for 2018, so it is on a downward trend.

But if you manage this well, didn't have to give so many giveaways, you may be able to reduce the deficit even further. When you have a budget which focuses on literally every other sector, the impact is not there in terms of focusing on the core areas.

So when you look at the 4th Industrial revolution, I would have expected if you have a forward looking government, you would have talked about this in the previous budget. So we are always trying to follow and catch up.

If you look at the 6th Thrust of the budget, which addresses the 4th Industrial revolution, you'll find that there is not enough substance. It is not well covered, and everything that is given is only an incentive for automation, and giving capital allowances and that kind of stuff which is already there, but they have expanded it a little bit.

Next if you look at revenue collection, the projections for 2018 are, direct tax revenue will increase by 6.7% and indirect taxes will increase by 5.6% in 2018, compared to 2017. So it is really riding on the fact that the economic growth is going upwards.

If you look at GST, the projections are RM43.8 billion is expected, compared to RM41.5billion for 2017. This is a positive sign. It is all riding on the basis that the economic growth is now good, and it's going to get reasonably better. But you need to look out for the headwinds.

We are not sure of the future. The world and global economy is growing but still have some possible instability along the way. Sometimes when you have a situation like that, you don't want to go out gung-ho and give out too much. You would rather keep a little bit, so that if something goes wrong, you can recalibrate it.

I think overall it (the Budget) is just all over the place, with too many things. The idea is to show that I'm taking care of everyone, therefore I'm doing everything. But if you really want to focus on the budget, it is really should be about driving the economy and focusing on the core areas.

So there's nothing really about invigorating business. Everything is just the same, the grants, allocations and so on.

In the context of Malaysia and many other countries in SEA, our challenge is always the actual delivery, in terms of how do you give out the grants, what are the criteria's, etc.

We always hear the stories of SMEs saying they are not aware of the grants available, and we continue to keep hearing of this despite SME Corp being around for so ►

Execution need to be made tangible

► long. Perhaps its misplaced comments by certain players, perhaps SME Corp can do more. In the end of the day, we tend to feel that there is a lot of things going around and many organisations, but there is a lack of cohesive coordination among all this organisations.

And if you do that well, you'll actually see our SME sector really boom. Right now we are dissipated; we are all working on our own and struggling. But SME Corp was supposed to provide a lot more integration. It is doing some good work, but somehow we don't see this flowing through. A lot of SMEs have said "Oh! I tried, and couldn't get a grant. I'm not taken care of." So those are the challenges we have.

So we always have good plans, but we have problems with implementation, execution, and trying to connect the dots in terms of all the various organisations playing a role. Instead of creating more and more, we need to consolidate.

Seo: Yes, Dr Veerinderjeet made a very valid comment. No doubt that a lot of emphasis is to help the SMEs to help to accelerate into automation and Industry 4.0.

FMM has 3000 manufacturing members, 70% are SMEs. A lot of our members have over the period have benefited through some of the government grants for SMEs.

We have 16 ministries and 64 agencies that SME Corp works together with. So sometimes it is a bit difficult for them to coordinate. I'm not speaking behalf of SME Corp, but I feel that they don't have the bite, that is why they have the SME Act which is being drafted to come out soon.

Coming back to the budget, of course the industries might feel they need help to move to Industry 4.0. I mean they have been promoting this since last year. The guys from World Bank came and spoke about this, all the industry players were invited. Subsequently everyone gets excited.

It's nothing new for us, I come from a big manufacturing background, it is already implemented in big MNC's that are here. But our SMEs are still in Industry 2.0, they are still using labour. All they need to do is a simple process of relaying out the process and plant rather than automate. Too many hands handling the machines.

Maybe they can look at a leaner manufacturing and understanding. But SMEs sometimes don't have time to re-look at their plant. But to move to Industry 4.0, the SMEs will cry out asking for help and funding.

I think we should come with training, and create awareness. Some of this SMEs, if they are not part of the supply chain with the MNCs that are already moving to Industry 4.0, they will be left out in terms of competitiveness instead of delivering. They may not be able to deliver the volume.

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> "You cannot keep giving grants forever. The issue therefore is the mind-set of the players, and learning from others outside the country and going for a change."
> — Veerinderjeet

I'm very glad to note that in 2017, the percentage of share from manufacturing sector is actually 23% and service sector is 54.5%. I hope the government don't view that the service sector should be the main and only economy.

Because if you don't have manufacturing industry, you don't have spin offs right? The spinoff of related services like logistics, IT services, using ERP software and improving automation etc., are classified under services. But actually it makes sense because it is focusing on manufacturing.

For the 1st Thrust in the Budget, the initiative to help industrial growth exports. This is very welcoming from FMM, regardless of the size of a company. We feel this Budget initiative will invigorate the investment trade and industry are most welcomed by our sector, particularly for SMEs and trade promotion.

Especially to accelerate exports program, like the Market Development Grant (MDG) which at one time had stopped. This MDG will assist companies to go overseas, participate in trade exhibitions.

This is instrumental for our growth especially developing SMEs into the export market, as well as to facilitate trade improvement in logistics and transport infrastructure. In particular the RM110 million allocation to improve connectivity in Port Klang.

If you have been to Port Klang, you'll know the last mile is terrible. The lanes are congested, and hauliers feel they can't be efficient and make more rounds because they are stuck in traffic. This causes them money.

The other focus on the budget that it encourages alternative source of fund for FMM through venture capital (VC).

Veerinderjeet: VC incentive is not new. It has always been there. They have just loosen up some conditions of the incentive and make it look like it's new. All of this incentives already exist.

The issue at the end of the day is we don't have the data to say how successful has it been? How many takers have there been? How many VC projects were successful? How many angel investors?

They are encouraging banks to give easier terms and all that. So there is a market for seeking alternative funding away from the banks, and that's where this and many other players come into the market. The concern is whether all this alternative funding is reliable.

The government is partly to be blame. Because they have created the subsidy mentality in almost all of us. Therefore some business fail to innovate, fail to go beyond. Partly because they need to invest and funding is an issue.

You cannot keep giving grants forever. The issue therefore is the mind-set of the players, and learning from others outside the country and going for a change.

The big players are there, they are focused on that and therefore IoT and automation is faster for them. SMEs should think of how to leverage on the large players. That's where SME Corp and FMM comes into place.

Yong: To address the issues of our non-competitive mentality we need to encourage our "hidden champion" like Old Town White Coffee who are a huge success in China. Unfortunately, our culture is such that we do not share our success stories. When Alibaba's Jack Ma said he wanted to bring 1,500 Malaysian companies to penetrate China via the DFTZ, everyone was so pessimistic because we don't realise the hidden champion within us. The way to do it is to learn how companies like Old Town White Coffee, Papa Rich, and Julie, survive in China.

Veerinderjeet: In connection to that, I think there has been some reports and focus on some of the local brands that have become worldwide as you have mentioned. I think the challenge for us is who is going to help in assisting SME's?, so this is where I look at associations, I look at the Trade Chambers, in trying to connect with this players like Old Town.

It's only a small crowd who listens to this and gets inspired and after that you go back and do the same old thing. I think that is a mind-set issue. This is all connected to our education system. Some of us are educated overseas and some of us were educated locally but the important thing is that creativeness, innovativeness has never been focused, but now it's now talked about. Children should be taught to ask questions, and give them some ideas and give them space to be creative and think. Look at the millions that are operating in the economy. They're just happy to do what it is because they feel that 'I can't do anything more'. So when you talk about automation and all this, who is going do that, because they don't have the funds for that, so they go back to square one but perhaps the solution sometimes when they have this mind-set is 'should we not be encouraging mergers and integration among some businesses which are in the same space'.

DFTZ lacks clarity

Seo: This DFTZ is only business to business, not business to customer. My concern is that, if we don't manufacture enough products in Malaysia, we are only trading. So what is that so good that the Chinese will buy from us? Of course durian products, and white coffee, are there any other things?

The way I look at it, there's more for them to sell because they have a wider platform. I am asking, ►

A turnabout on Corporate Taxes?

There's quite a lack of information on the DFTZ, because it has just been announced, so it will take a while. At the moment you're not getting any feel about what exactly is the DFTZ."
— Veerinderjeet

what are the by-Malaysian products and services that we can benefit from? No doubt that we invite them to Aeropolis to set up a free trade area, free trade area means they are deemed to be outside Malaysia, and all they can do is come over here, do a bit of packaging, re-label items to 'Made in Malaysia', actually it's not even made here, they're just changing the packaging, and then go off again. So, how does it benefit Malaysia, other than renting our space, using our logistics? I would invest in logistics business, because that will be the growth area. We must improve our logistics.

Veerinderjeet: There's quite a lack of information on the DFTZ, because it has just been announced, so it will take a while. At the moment you're not getting any feel about what exactly is the DFTZ. And then alternately because the free trade zone, the actual tax issues will come in later, so some will tell you, be patient, just wait, but when you start this, you need to actually decide on what incentives you want to give as well as an announcement that will spur people's interest. SMEs of course have a role there.

But the concept of the free trade zone, if you look at the history of all our free trade zones, it was 's always for MNC's, ie exporting in raw materials, repackaging, or doing something that's for export, so that's why it's recognised as being out of Malaysia.

Seo: One of the areas we value a lot is TVET, where we have been consulted. And now government is allocating RM4.9 billion for it. Government is developing a master plan to develop TVET. There is too much fragmentation in TVET now.

I understand that this master plan will be a merger of all TVET institutions under TVET Malaysia.

You know to get foreign workers in is also difficult. To get expatriates to come to Malaysia is also difficult, because KDN or CIDB will decide if you first need them or not. If you want a construction manager, you must tell them that this construction is very difficult and that we have not done it in Malaysia. You have to justify until they agree. And those who decide are not experts in your field, to be honest with you.

Yong: Reality check. Less than 30% of our STPM students are taking Science, whereas 70% are taking business in their tertiary education. So, we have too many business graduates. So if you want to talk about Industry 4.0, it involves less than 30% of students who presently enter tertiary education.

When you talk about private colleges, they find it difficult to organise coding classes. It needs at least 30 students to organise a class and usually the attendance rate is less than 25 students. This is because students find coding boring.

Coding is regarded as the fourth language after Malay, English and Chinese. Everyone should learn coding. But our students are not interested, and the way we teach is also boring.

What I find, when I ask around is that 50% to 60% of coders in the market learn coding themselves.

Seo: When it comes to skills and technical training, a lot of trainers have never worked one day in their life as a welder or a ship metal worker or a machinist. They are straight from MARA, and start training. Skill level four trains those of skill level three.

So, I ask them, how they can passionately speak about the manufacturing industry if you have never had cuts like I have? How can you tell your students what to expect when you walk into a factory?

Yong: I was leading a trip to China and Taiwan. I brought with me halal, eCommerce and digitalised businesses. The northern Asian countries rely on us to penetrate Southeast Asia, India and the Arab market. Our advantage is that being multi-ethnic and diverse, Malaysia is also very sensitive to ethnic and religious needs. You can't find this trait in other countries in the world. That makes us the best partner.

That is also the reason why, after the announcement of the One Belt One Road initiative, the country that the initiative took off quite well is Malaysia, compared to other participating countries. That is because we have the Chinese population and the multi-language capability.

When Alibaba came to Malaysia, they came with data. They came to SITEC to link them up with the furniture association. The furniture association in Malaysia is ranked eighth or ninth in the world. They have so many SKUs, products and capabilities but they are not organised. I can say 90% of them are not organised.

What we can learn from Alibaba is that they came with data. They know that people want to buy Malaysian furniture. They know that selling furniture is better than selling computer. And when you go to China and Hong Kong, Malaysian furniture is sold. Malaysian wood is good. But we don't know this.

If you look around the region, GST rates in other countries do not go down. It only goes up."
— Ng

So when they came, they came with a business consultant and SOP. They work as a government cum association. This is what we need. We need this kind of system in place where those who are doing business well in Indonesia, India, Thailand and also Arab to promote Malaysian products there.

Recently, I went to China for the Maritime Silk Road exhibition. Malaysian businesses took up 400 booths. But all the businesses only sold three types of products – bird's nest, three in one coffee, durian cakes and other items made out of durian. This shows a lack of data, product experts to do differentiation and poor marketing skills.

Before we enter a market, we need to know the market situation before sales. We need an end to end system to help us with it.

Seo: Every country is pushing for Industry 4.0. Japan, Taiwan, China is implementing their own version of Industry 4.0. In the ASEAN region, Malaysia has the potential to be the leader. Malaysia acts as a good platform to go into some of the markets.

By building the country's talent in Industry 4.0, we can invite more foreign investments. For FMM, the matching grant and tax incentive for smart manufacturing, automation and digital technology helps to reduce the costs of implementation of Industry 4.0. Otherwise, it is costly.

Also, at the moment, everybody claim that they want to do Industry 4.0. But we feel that it is also very fragmented. So, perhaps like TVET, we need to combine all interested parties into one.

Corporate tax rate stays

Seo: FMM sees that in the latest budget, the corporate tax rate has not been reduced. We are still at 24% but other countries have lower corporate taxes.

Veerinderjeet: The challenge is this. We talk about other countries in Southeast Asia and their corporate tax rates. What we are not talking about is their withholding taxes and dividends. Malaysia does not have a withholding tax. And also, in Malaysia we only tax income earned in Malaysia. We do not tax overseas income. Indonesia and Thailand is different. They do bring in some of these incomes to be taxable.

And the Ministry of Finance argument is that we are not the same in different countries. So for you to keep pushing and asking for reduction in corporate tax rate, you are being unfair. When you look at other countries, they have other costs such as withholding tax built in. So, when we argue that other countries impose 20% corporate tax, you have got to add in the fact that they also pay 20% withholding tax, which makes it more costly.

But whatever said and done, maybe the move forward is that we have to join the game anyway. The corporate tax rate is one of the most significant things to look for. You don't worry about the other taxes unfortunately.

Thailand imposes a 20% corporate tax, Vietnam 20%, Hong Kong 17%, Singapore 18% and Indonesia is around 20%. And we are still at 24%. The challenge is, can Malaysia reduce the corporate tax rate?

But I think eventually they will have to join the game. They will have to bring down the corporate tax rate. Not immediately, but perhaps 1% annually and eventually reach the 20% rate. Perhaps that could be where we will settle down.

But I think they are not prepared to do that and businesses like to see a progressive plan. It's better to give a three year or five year plan in advance rather than a one year plan. Such as, this is what we will do, which creates a bit more certainty instead of waiting another year to see what happens.

The problem with the tax rate is that we do not have a clear policy of where we are going. The reason why we are talking about corporate tax rate is because GST is there now. And the idea was, when the GST is settled in, we should move towards reduction of corporate tax rate.

I think what will happen is that in 2020, you might see GST go up and corporate tax comes down. And what I say many times is that the GST might probably go up to 10% and the corporate tax rate could come down to 20%. So, that's probably where we will land.

And the government needs to be a bit savvier because we unfortunately rely on foreign investment as well, besides growing our local pool. We still need foreign investment and our investment number is not as good as it used to be.

So, we are in the move towards the fourth industrial revolution. High value manufacturing is what we want, and R&D and the digital world is what we are looking at. We want to move there but it is going to take a while.

Ng: Just want to add to what Dr Veerinderjeet was talking about earlier, the idea of reducing the corporate tax rate due to GST. If you look around the region, GST rates in other countries do not go down. It only goes up.

And to compare, Malaysia's GST regime is also very different from other countries. We have all these zero rating and exemptions to help the Rakyat. Not everything is taxed with GST. In other countries, everything is taxed. This is because the government wants to take care of some of the lower income earners.

Veerinderjeet: That's why the government is reluctant to commit to corporate tax reduction. The GST is doing well, but it can do better. If they take away all these zero rates and exemptions, it will do so much better in terms of revenue collection.

But in this Budget, you added a few more zero rates and exemptions. Presently we can still afford it. But that's not the right way to go. The government giving more zero rates and exemptions is the wrong way to go.

The right way is taking away all these zero rates and exemptions. But that will only happen when we are in a better economic situation. So, that will eventually happen. In the long run, the best incentive really is low tax rate. MSME