

Comments on the 2015 Budget by
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1. YAB Perdana Menteri presented a prudent, balanced, 'mesra rakyat' budget which clearly underlines the Government's effort and commitment towards national transformation en route to becoming a high income nation while placing the concerns of the average citizen at the core of the Budget. The theme of 2015 Budget, **"Accelerating Growth, Ensuring Fiscal Sustainability and Prospering the Rakyat"** reflects this aspiration.
2. Despite the less than optimistic external economic environment, Malaysia's economic fundamentals remain strong. In the first half of 2014, Malaysia's economic performance registered impressive growth of 6.3%. It is estimated that national growth will expand by 5.5% to 6% in 2014.
3. Malaysia remains attractive to foreign investors. The 2015 Budget contains various measures which would further stimulate exports and investment inflows. In line with the objective of achieving a high-income nation status by 2020, the Budget provides for various enhanced special incentive packages which will be offered to quality investment projects that provide highly qualified and knowledgeable employees with high salaries.
4. The Budget would also stimulate the growth of SMEs as well as lighten the people's burden to cushion challenging adjustment.
5. A total of RM1.3 billion has been allocated for MITI to implement the development plans under this Budget. Of this, RM586.7 million is for operating expenditure and RM716 million, for development expenditure.

Locational Incentives for Less Developed Areas

6. The Government introduced special locational incentives to encourage more equitable regional development and inclusiveness.
7. The impact of these incentives is reflected through the development of the economic corridors, particularly Iskandar Malaysia. Given this positive impact, the Government has decided to extend locational incentives to encourage further economic activities in other less developed areas.
8. From 2006 to May 2014, 3,262 projects have been approved cumulatively in the five economic corridors (Northern Corridor Economic Region (NCER), East Cost Economic Region (ECER), Sabah Development Corridor, Sarawak Corridor of Renewable Energy (SCORE) and Iskandar Malaysia, which contribute to total domestic investment of RM91 billion and foreign investment of RM157 billion. This has created 362,891 new jobs in Malaysia.

Incentives for Industrial Development

9. Industrial areas with systematically maintained public facilities/infrastructure are among the attributing factors to the development of high value added and technology-based industries.
10. In this case, Pioneer Status with income tax exemption of 100% of the statutory income for a period of five years will be made available to encourage the private sector to manage, maintain and improve the industrial areas in less developed areas.
11. Pioneer Status with income tax exemption of 70% of the statutory income for a period of five years will be given to the private sector to manage the industrial areas in other areas.

Impact

- Addressing the lack of proper management and upkeep of IEs;
- Providing more conducive investment environment with better infrastructure management;
- Promoting growth and fostering development of IE and surrounding areas;
- Leveraging on location comparative advantages; and
- Encouraging the use of park management model.

Incentives to Enhance Automation in Labour-Intensive Industries

12. To accelerate the shift of the manufacturing sector from labour-intensive into high value-added, knowledge-intensive and innovative industries, these incentives will be introduced:

- **Category 1 : Most labour intensive industries (rubber, plastic, wood & furniture, textiles)**
 - Automation expenditure capital allowance of 200% on the first RM4 million expenditure and 100% for the remaining expenditure, from 2015 to 2017.
- **Category 2 : Other Industries**
 - Automation expenditure capital allowance of 200% on the first RM2 million of expenditure from 2015 to 2020.

Impact

- Encourage manufacturing companies to engage in innovative and productive activities;
- Encourage the quick adoption of automation especially for the most foreign labour reliant industries;
- Reduce outflow of cash from Malaysia by foreign labour;
- Further spur automation initiatives; and
- Achieve high-income country status by 2020.

Incentives for High Quality Investments with High Quality Employment

13. In promoting the development of high quality investment, the Government has always ensured the importance of having the spill over benefits to be enjoyed by the Rakyat, especially through the creation of employment opportunities that offer high income. This is to be consistent with the objective of achieving a high-income nation status by 2020.
14. Thus, more special incentive package will be offered for investment projects based on technology, innovation and knowledge, which involve highly qualified and knowledgeable employees that are paid with high salaries.

Impact

- Ensuring high quality investment for the Rakyat, especially through the creation of employment opportunities that offer high income.
- Achieving high-income country status by 2020.

Services Sector

Incentive to Enhance Services Exports

15. To enhance the capability of local services providers to do market studies to venture into international markets, the Government has re-introduced the Services Export Fund (SEF) of RM300 million.

Impact

- The reintroduction of SEF will help Malaysian services providers secure opportunities abroad and increase the contribution of non-government services sector to the economy.
- Provide opportunities for more services companies to secure high value projects through undertaking feasibility studies for infrastructure projects such as highways, ports and participation in international tenders.
- Reintroduction of SEF will provide greater opportunity to increase the contribution of services sector to total exports. Currently, contribution of services to total exports is 14%.

Establishment of Principal Hubs

16. To strengthen Malaysia's position as the global operational centre for multinational companies, the Government will introduce early 2015 customised incentives for Principal Hubs. This incentive is more comprehensive and attractive so as to enhance tax incentive scheme for regional and global hub activities such as OHQ, RDC, and IPC.

Impact

- To complement the increasing trend of global offshore trading. This incentive will enable potential MNCs to leverage on Malaysia's position in ASEAN and Asia Pacific by centralising their operations and decision making.

Services Sector Guarantee Scheme

Amounting to RM5 billion for SMEs in the services sector, with a maximum financing of RM5 million together with 70% Government guarantee. The scheme is expected to benefit 4,000 SMEs:

- RM10 million for companies in knowledge sector to establish research centres
- Reintroduce the Services Export Fund with fund RM300 million
- RM20million for Franchise Scheme under KPDNKK and PNS

Impact

Will facilitate SMEs undertaking projects overseas by providing bridging finance for implementation of projects and for SMEs to establish their physical presence overseas to secure projects.

SMEs

- Budget 2015 focuses on capital economy (macro policies, GDP growth, private sector investment, financial markets, etc.) as well as **people economy** (wage growth, SMEs, household expenditure, cost of living, jobs and family well-being).
- In line with the focus, the 2015 Budget has been very encouraging with continued support on SMEs and entrepreneurship development. A total of **18 specific programmes with financial allocation** amounting to **RM14.3 billion (vs RM2.8 billion in 2014)** were announced for SME development covering services sector, Bumiputera entrepreneurs; youth; graduates; microenterprises; petty traders; women; smallholders; cooperatives; and associations.
- Budget 2015 is a windfall for SMEs in terms of **access to financing**. Two major financing platforms were introduced, i.e Shariah based **Investment Account Platform (IAP)** and **SME Investment Partner (SIP)**. Both these programmes with a total allocation of RM525 million will provide financing for early stage SMEs. The SIP is a programme introduced under the SME Masterplan. In addition, the High Impact Programme 2 under the SME Masterplan, i.e. Technology Commercialisation Platform has received an additional allocation of RM50 million.
- The 2014 Budget is **supportive of the long-term agenda** towards achieving the **SME Masterplan**. The Government has also taken the **necessary measures** to ensure that **SMEs are not adversely affected** by the on-going **policy reforms** such as Goods and Services Tax which will come into effect on 1 April 2015.

Details of SME Development Programmes

(i) Access to financing

- Shariah-compliant investment product in 2015 called the Investment Account Platform (IAP). IAP will provide opportunities to investors in financing entrepreneurial activities and developing viable SMEs. At the same time, IAP will be a platform to attract institutional and individual investors including high net worth individuals to invest in the Islamic financial market. Initially, IAP will be implemented with a startup fund of RM150 million.
- Implementation of SME Investment Partner to provide SMEs financing assistance in the form of loans, equity or both, particularly at the startup stage. An initial fund totalling RM375 million will be provided for a period of five years, of which RM250 million is from SME Bank and RM125 million from private investors.
- RM10 million will be allocated for the Business Accelerator Programme under SME Corp. To enhance use of new technology, automation and innovation in the development of SMEs, RM80 million is allocated for a Soft Loan Scheme for Automation and Modernisation of SMEs under the Malaysian Industrial Development Finance Berhad. TEKUN to provide additional funds of RM500 million which will be distributed as follows: RM350 million is allocated for Bumiputera entrepreneurs to provide financing to nearly 33,000 new borrowers;
 - RM50 million will be allocated to the Young Indian Entrepreneurs Financing Scheme that will benefit 5,000 Indian entrepreneurs;
 - RM50 million will be allocated to the Young Professional Women Entrepreneurs Development Programme that will benefit 5,000 professional women; and

- RM50 million will be allocated to the Armed Forces Veteran Entrepreneur Development Programme that will benefit 5,000 veterans who were not on a pensionable scheme.
- To assist SME entrepreneurs from the Chinese community, the Government will provide soft loans totalling RM50 million, and RM30 million for hawkers and petty traders
- RM30 million allocated through Amanah Ikhtiar Malaysia (AIM) to inculcate the spirit of entrepreneurship among Indian women.

(iii) Innovation and Technology

- Rebrand SIRIM. For this, an SME Technology Penetration and Upgrading Programme and technology auditing will be implemented
- Technology Commercialisation Platform Programme by Agensi Inovasi Malaysia with an additional allocation of RM50 million.

(iv) Human capital development

- Talent Corp will provide RM30 million for Industry Academia Collaboration programme where universities, Government entities and industries will collaborate to develop the curriculum for the internship programmes and industrial training.
- To attract more expatriate entrepreneurs establish Startups in Malaysia, the paid-up capital for Startups is set at RM75,000. Eligible expatriate Startup entrepreneurs will be given Work Pass for one year.

(v) Bumiputera entrepreneurs

- Strengthening the role of the National Entrepreneurship Institute (INSKEN) as a Centre of Excellence for Bumiputera Entrepreneurship;
- Further accelerate the Bumiputera Entrepreneurs Startup Scheme (SUPERB) with additional allocation of RM30 million.

- Introducing pre-export programme for high-performing Bumiputera companies (TERAS) for enhanced branding, international certification and market surveys for Bumiputera products
- Expanding carve-out and compete programme through meritocracy for Government and privatised projects including MRT second phase and Pan-Borneo Highway.
- Lembaga Tabung Haji to allocate RM200 million for the establishment of the shariah-compliant Restricted Investment Account (RIA) under Bank Islam. The purpose of this account is to provide financing and credit between RM50,000 and RM1 million from January 2015; and
- Amanah Ikhtiar Malaysia (AIM) will use internal sources of RM1.8 billion for financing to benefit 346,000 Sahabat AIM.

(vi) Entrepreneurial development

- Enhance entrepreneurial talent among the youth through the programmes under Malaysian Global Innovation & Creativity Centre (MaGIC), SME Bank and Agro Bank as well as introduce Online Resource Centre and organise an international social entrepreneurship conference;
- Youth Agropreneur Programme will be implemented under the purview of FAMA involving 1,200 youth and targeting a monthly income exceeding RM5,000; and

(vii) Agriculture sector

- RM6 billion to Ministry of Agriculture and Agro-Based Industry to implement the following initiatives:
 - From 2015 to 2017, the Government will establish 65 permanent farmers' markets and 50 fish markets that will operate daily in selected locations.
 - Introduce a weekly auction programme for quality vegetables at reasonable prices at 85 FAMA Trading Operation Centres and selected farmers' markets nationwide;
 - Accelerating planting and replanting of fruit trees such as durian, mangosteen, langsat, rambutan as well as intensifying Jom

- Bertani Programme so the rakyat can cultivate cash crops and vegetables for their own consumption; and
- Providing RM100 million matching grant to Farmers' Organisation Authority to enable the members to obtain loans to improve farm productivity and marketing channels.
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 - RM60 million is allocated to accelerate aquaculture activities such as cage farming of fish, shrimp, mussels and oysters to diversify sources of income of fishermen who are affected especially during the monsoon season.
 - RM27 million is allocated to install Automatic Identification System on fishing boats to increase fish landing, ensure the fishing boats' bearings are according to landing zones and reduce operating costs.

Bumiputera

MEASURE 1: INCREASING EQUITY OWNERSHIP OF BUMIPUTERA

- Impak adalah dengan penambahan peruntukan sebanyak RM600 juta ini akan dapat membantu meningkatkan penyertaan syarikat Bumiputera dalam syarikat persendirian dan juga GLC. Ini adalah selaras dengan agenda untuk memperkasakan ekonomi pembangunan Bumiputera.
- MITI berperanan juga untuk meningkatkan penyertaan Bumiputera dalam pasaran saham menerusi skim saham Khas Bumiputera (SKB) di mana setiap syarikat yang ingin melaksanakan *Initial Public Offerings* (IPOs) perlu memperuntukkan sebanyak 12.5% saham khas Bumiputera yang akan diagihkan oleh MITI.

MEASURE 2: Strengthening Bumiputera

- Berhubung dengan peningkatan keusahawanan Bumiputera, inisiatif yang digariskan dalam Bajet 2014 sememangnya dapat memperkasakan ekonomi Bumiputera. Pemindahan INSKEN ke TERAJU adalah tepat pada masanya.
- Langkah-langkah untuk memperkukuhkan INSKEN, penambahan peruntukan termasuk Sabah dan Sarawak akan membantu memperkukuhkan keusahawanan Bumiputera, program-program ini juga akan saling melengkapi kepada program-program yang telah dilaksanakan oleh MITI seperti groom BIG, VDP dan SDSI.
- Dari segi menembusi pasaran antarabangsa kerjasama hendaklah diadakan dengan MATRADE sebagai Agensi pengesport negara di mana dengan rangkaian pejabatnya di luar Negara, MATRADE bersedia untuk menyediakan pelbagai bantuan seperti maklumat risikan pasaran dan hubungan perniagaan dengan syarikat pengimport di luar negara. Ini bagi memastikan supaya usaha pembangunan keupayaan yang dicadangkan dapat membuahkan hasil dalam bentuk eksport sebenar.

- Di samping itu MITI mengalu-alukan untuk meluaskan program 'carve out and compete' ini akan menyediakan lebih banyak peluang kepada Bumiputera kepada projek Kerajaan dan swasta.
- MITI telah melaksanakan beberapa program pembangunan keusahawanan. Selaras dengan agenda ini, program pembangunan berikut termasuk:
 - Program pembangunan vendor (VDP), di mana di bawah program ini, setiap GLC perlu mempunyai KPI bagi melaksanakan program VDP in. Program ini akan dikembangkan bukan sahaja di kalangan GLC tapi juga ke atas syarikat-syarikat besar.
 - Program peningkatan kualiti produk dan perkhidmatan atau Grooming Big. Program ini bertujuan untuk membantu usahawan meningkatkan keupayaan pengurusan perniagaan melalui modul-modul yang dirangka khas bagi tujuan meningkatkan keupayaan keusahawanan di kalangan syarikat-syarikat bumiputera. Di samping itu, program ini memberi penekanan pembangunan produk, kapasiti pengeluaran serta pengembangan pasaran melalui program ini syarikat menjadi berdaya maju dan berdaya tahan serta membantu syarikat memasuki pasaran domestik dan seterusnya ke luar negara.
 - Program SDSI, memberi penekanan kepada pembangunan perniagaan di peringkat akar umbi iaitu satu produk satu daerah. Disamping itu juga, program ini menekankan pembangunan daya upaya kepada para usahawan yang terlibat.

Ministry of International Trade and Industry
 Malaysia
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