

Memorandum

to

Prime Minister

Y.A.B. Dato' Seri Abdullah bin Haji Ahmad Badawi
and

Deputy Prime Minister

Y.A.B. Dato' Sri Najib bin Tun Abdul Razak

on the 2nd Stimulus Package

Date: 28th February 2009

Proposed by:

**Parti Gerakan Rakyat Malaysia
Central Economic Bureau
and
SEDAR Institute**

Main Objectives

- 1) To preserve jobs and ensure employment remains robust;
- 2) To stimulate consumer spending; and
- 3) To enhance competitiveness for long term economic stability and sustainability.

Main areas of concern

- 1) Employment;
- 2) Small and Medium Enterprises’;
- 3) Overall competitiveness of the Malaysian economy;
- 4) Consumer Spending and creating a multiplier effect; and
- 5) Agriculture with a special emphasis on vegetable farming.

Employment

1) Challenges:

- a. There is an urgent need to preserve jobs to ensure that the livelihood of Malaysians is not disrupted and they will be able to sustain a decent standard of living.
- b. There is an urgent need to continue to create jobs for school leavers and graduates.

2) Proposed Measures and Actions:

- a. Government agencies and Government-Linked Companies (GLC) must provide sufficient contracts to sustain the private sector. Focus should be given to economic sectors and sub-sectors critical for the long-term competitiveness of the nation's economy.
- b. The Government should accelerate funding for skills training institutes to allow Malaysians to take this time to develop and enhance their knowledge and skills to adapt to the more demanding and competitive work environment.
- c. The Government should provide more loans and micro-credit facilities for retrenched workers, especially those who want to become entrepreneurs. This must be based on merit and the application and approval process must be efficient and transparent; and not mired in bureaucracy.
- d. The Government must assist retrenched workers to find employment. The current agency dealing with work placements through the Human Resources Ministry must be made even more effective, be linked up with the private-sector job agencies, and be publicised widely so that more Malaysians will be aware and make full use of the opportunities provided.
- e. The Government should provide businesses with financial support and incentives to ensure that they continue to hold on to their workforce.
- f. The Government should, as far as possible, avoid increasing the size of the civil service merely for the purpose of absorbing unemployment so as to avoid overburdening the civil service and government expenditure in the long-run.

Small and Medium Enterprises

1) Challenges:

- a. There are an estimated 548,000 SMEs, accounting for 91.3 per cent of the over 600,000 active companies registered in the country.
- b. Manufacturing-sector sales have plunged nearly 21 per cent in December to RM37.4 billion from the previous year and 17.2 per cent month-on-month.
- c. Of 106 industries covered by the Department of Statistics, 63 posted a drop in sales value, the largest falls recorded were in refined petroleum products, electrical and electronics, and basic industrial chemicals.
- d. Small to medium-sized enterprises (SMEs), which employ 5.6 million or slightly over half of the country's workforce, have seen orders decline by 50-60 per cent — in more extreme cases 80 per cent, according to SMI Association of Malaysia.

2) Proposed Measures and Actions:

- a. The Government should establish a special purpose vehicle similar to Danaharta to purchase bad debts from SMEs.
- b. The Government should provide more direct loans at zero interest to SMEs via the Finance Ministry with minimal bureaucratic hurdles and a quick approval process.
- c. The Government should reduce the cost of doing business by:
 - i. Reducing the corporate tax rate further by at least another 2 percent.
 - ii. Reducing or freezing both the employers' and employees' contribution to EPF for a year. The short fall for this one year to be assumed by the Government and credit into the employees' account.
- d. The Government must take urgent steps to stimulate domestic demand by introducing a voucher program for Malaysians to buy locally manufactured goods and locally provided services. *(This is further explained under the 'Stimulating Consumer Demand' section of this memorandum.)*

Keeping Malaysia Competitive

1) Challenges:

- a. Although Malaysia has improved in the Global Competitiveness Ranking from 25th in 2005 to 21st in 2008 (IMD Yearbook), we still lag behind other countries in the region like Singapore and Hong Kong.
- b. According to the IMD Yearbook, the major issues hindering Malaysia's quest for a more competitive economy are transparency, unnecessary bureaucracy and protectionist policies. Such issues impair Malaysia's ability to successfully embrace the challenges of globalization and compete in the highly challenging global economy.
- c. The National Economic Action Council identified in 2003 that Malaysia lagged behind in science and engineering, university-industry collaboration and corporate governance.
- d. Malaysia is still facing a shortage of engineers, doctors and other professionals.

2) Proposed Measures and Actions:

- a. Liberalise certain aspects of the NEP. We welcome reports stating that the *Bumiputera* equity requirement in the retailing sector will be relaxed for the duration of the economic crisis.
- b. The Government must ensure that transparency is further accelerated and this will help allay the concerns of foreign investors. The MACC and the JAC must work as independents and this will help correct the perception on corruption and judicial bias in Malaysia.
- c. The Government must examine moving from a race-based policy to one that increasingly emphasizes on merits and needs. This will allow Malaysia to compete internationally, while addressing the needs of the disadvantaged and underprivileged at the same time.
- d. The government should provide more grants and zero-interest loans for Malaysians wishing to further their studies or enhance their skills via technical training.

Stimulating Consumer Demand

1) Challenges:

- a. The drop in consumer demand has led to a drop in sales and manufacturing.
- b. This will be further compounded by the impending recession.
- c. Consumers are cautious about their spending in these trying times but consumer spending will spur the economic recovery.
- d. Malaysian consumers are facing a crisis of confidence. They are unwilling to spend even if they are able to because of the gloom that has been cast over the health of the economy.
- e. The housing sector can be converted into an engine of growth if managed properly. *(We must, of course, keep in mind that the burst of the housing bubble in the United States and United Kingdom precipitated the global economic crisis)*

2) Proposed Measures

- a. Tax-cuts in personal incomes.
- b. Tax-breaks for families and young newly married couples.
- c. Voucher program: this is similar to the Taiwanese approach of giving all citizens a one-off voucher for them to purchase certain goods and services. In Taiwan this contributed to 0.64% increase in GDP.
- d. Subsidies for upkeep of heritage buildings: this will help stimulate the construction and service sectors. This can be done through a special taskforce under the Ministry of Unity, Culture, Arts and Heritage as many such heritage buildings are in Penang and Melaka.

3) Special Emphasis on Housing:

- a. We welcome the announcement in the King's Speech regarding the accelerated development of *Projek Perumahan Rakyat*. At the same time, more focus must be placed on developing low and medium cost homes through the governmental

development agencies and imposing the cross subsidy formula on all new and current development projects.

- b. The Government must examine the possibility of exempting or freezing the *Bumiputera* discounts for high-cost properties and relaxing the rules on *Bumiputera* housing reserve quota. However, this must only cover development projects where the developer has already taken steps to discharge his social responsibility, for example, employing the cross subsidy formula in building more low and medium cost homes.
- c. The Government must take measures to facilitate:
 - i. Refinancing of mortgages by providing a stamp-duty waiver for one year; and
 - ii. Extending the repayment period for loans on low and medium cost properties.
- d. First-time home-buyers credit of 10% of the purchase price. The Government should provide, based on a sliding scale, up to a maximum of RM 10,000 depending on the cost of the property. However, this program must only cover low and medium cost properties. The credit can function as a down payment and this will be a one-off payment by the Government to help stimulate the property sector. This is similar to the approach adopted by the Australian Government in providing a first-time credit of AUD\$21,000 for all properties regardless of the cost.

4) Special emphasis on assisting savings-dependent households

a) Challenges

- i. We welcome the reduction in the Overnight Policy Rate (OPR) to 2% by Bank Negara as a correct measure to lower the cost of borrowing and stimulate consumer spending.
- ii. However, a lower OPR results in a reduction of interest rates on savings and fixed deposits, thus negatively impacting the amount of interest returns to sustain a decent level of livelihood which many had depended upon prior to the global economic crisis.

- iii. The Government must assist low and medium income households, especially retired people, who depend mainly on pensions or interest returns to sustain their livelihood.

b) Proposed Measures and Action:

- i. The Government must help those in trouble by providing them with some form of income support such as interest subsidies or a voucher program.
- ii. However, the Government must be fair in disbursing this support by employing a form of means testing which takes into consideration factors such as the collective household income and returns from savings, the number of dependants, etc. the amount of subsidy support should be based on a sliding scale in favour of those in the lower income brackets.

Agriculture with a Special Emphasis on Vegetable Farmers

1) Challenges:

- a. The major problems facing are the high cost of fertilizer, pesticides and issues surrounding the farm land and problems they face.
- b. Vegetable farmers play an important role in ensuring an adequate food supply and this will alleviate some of the concerns on food security.

2) Proposed Measures:

- a. State Governments should provide more land for vegetable farmers and legalise those farms that currently illegally occupy certain plots of land.
- b. The Government should also provide subsidies for fertilizers, herbicides and pesticides.