Chapter 20

# GROWTH AREAS IN SERVICES

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## SECTION I OVERVIEW

20.01 The services sector is a major contributor to the growth of the Malaysian economy. The sector assumes an important intermediary role of supporting businesses and trade in all sectors of the economy. Trade in services has expanded and recorded marked expansion in exports, such as tourism, information and communication technology (ICT), finance and construction. In addition, the sector has generated the largest number of employment opportunities. During the period of the Second Industrial Master Plan (IMP2), 1996-2005, the services sector, which included construction services, but excluded Government services, grew at an average annual rate of 5.6 per cent. In line with the emphasis in the IMP2 on the development of services along the manufacturing value chain, the promotion of manufacturing-related services was initiated.

20.02 The Third Industrial Master Plan (IMP3), 2006-2020, focuses on the further development and growth of the services sector, which includes construction services, but excludes Government services. The sector is targeted to assume a leading role in driving the growth of the economy. Separate targets have been set for the growth of the non-Government and construction components of the sector:

- non-Government services to grow at an average annual rate of 7.5 per cent; and
- construction services, at 5.7 per cent.

To achieve the growth targets, the Government has formulated a set of comprehensive strategies and policy measures.

20.03 Eight services sub-sectors have been identified for further development during the IMP3 period. These are business and professional services, distributive trade, construction, education and training, healthcare services, tourism services, ICT services and logistics. These sub-sectors are selected, based on their expected contributions in the following areas:

- significant role as intermediate service providers in raising productivity through inter- and intra-sectoral linkages;
- potential for integration within the global context, in particular, the potential to further capitalise upon the growth of global business process outsourcing activities;

- significant impact on the economy through the diffusion of best practices and technology enhancement;

- potential in improving the invisible account of the Balance of Payments (BOP) through import substitution and the development of exports; and

- potential in creating knowledge-intensive employment opportunities and skills.

This Chapter focuses on the development and future directions of six of the sub-sectors, namely, business and professional services, distributive trade, construction, education and training, healthcare services and tourism services. The development and future directions of the remaining two sub-sectors, namely, ICT services and logistics, have been addressed in the respective chapters. Financial services are not covered in the IMP3. Specific strategies for the development of the sub-sector are contained in the Financial Sector Master Plan and Capital Market Master Plan. These plans chart the future direction of the financial system and capital market, respectively, for a ten-year period, 2001-2010.

20.04 During the IMP3 period, with greater liberalisation, more new services products will be introduced, such as innovative tourism products and outsourcing of business and professional services through shared service providers. Existing service providers will be encouraged to improve their production and delivery approaches through the infusion and adoption of knowledge, technologies and ICT-based systems. Enterprises will be encouraged to collaborate, merge or acquire other entities to gain access to organisational, management and business skills, and technologies and greater markets internationally. Such initiatives will also contribute towards integrating the services sector into the international supply and distribution networks.

20.05 This Chapter covers:

- the development and contribution of the overall services sector and six of the selected services sub-sectors during the IMP2 period, including share to the Gross Domestic Product (GDP) and trade;

- challenges faced by the selected sub-sectors, including opening up of the markets and the need to upgrade the human resource capabilities; and

- strategies and policies to address the challenges and further develop the sub-sectors, including enhancing the competitiveness of the sub-sectors through progressive liberalisation and promoting the exports of services.

## SECTION II DEVELOPMENTS AND CONTRIBUTION OF THE SERVICES SECTOR

### (a) Developments During the Second Industrial Master Plan

#### *(i) Share of Gross Domestic Product*

20.06 During the IMP2 period, the main contributors of the services sector to GDP were finance, insurance, real estate and business services; wholesale and retail, hotels and restaurants; and transport, storage and communication (Table 20.1). Together, these services contributed more than 60 per cent of the value-added in the services sector in 2005. In 1996, the non-Government services sector (finance, insurance, real estate and business services; wholesale and retail, hotels and restaurants; transport, storage and communication; electricity, gas and water; construction and other services), contributed RM89.6 billion, or 48.9 per cent, of the GDP. In 2005, the contribution of the non-Government services sector expanded to RM139.5 billion, accounting for 53.2 per cent of the GDP. Prior to the Asian financial crisis, the non-Government services sector registered growth of 10.6 per cent in 1996 and 10.1 per cent in 1997. Following the financial crisis, the sector recorded negative growth in 1998, largely as a result of the contraction of the construction sub-sector until 1999. Between 2000 and 2005, the sector grew at a lower rate of 5.9 per cent per annum. During the same period, the contribution of Government services to the GDP increased from RM12 billion, or 6.5 per cent, of the GDP in 1996 to RM19.8 billion (7.6 per cent) in 2005.

Table 20.1

**SHARE OF THE SERVICES SUB-SECTORS IN REAL GROSS DOMESTIC PRODUCT**

| *Sub-sectors* | *1996* | | *2005* | |
|---|---|---|---|---|
| | *(RM billion)* | *Share (%)* | *(RM billion)* | *Share (%)* |
| **Total** | **101.6** | **55.4** | **159.3** | **60.8** |
| Finance, insurance, real estate and business services | 20.2 | 11.0 | 39.6 | 15.1 |
| Wholesale and retail, hotels and restaurants | 27.3 | 14.9 | 38.4 | 14.7 |
| Transport, storage and communication | 13.2 | 7.2 | 23.2 | 8.8 |
| Other sevices[1] | 13.8 | 7.5 | 20.3 | 7.8 |
| Government services | 12.0 | 6.5 | 19.8 | 7.6 |
| Electricity, gas and water | 6.4 | 3.5 | 10.9 | 4.1 |
| Construction | 8.6 | 4.7 | 7.1 | 2.7 |

*Note*: [1] Include community, social and personal services, private non-profit services to households and domestic services at households

*Source*: Department of Statistics

### *(ii) Share of Employment*

20.07 The contribution of the sector to total employment increased from 55.6 per cent in 1996 to 58 per cent in 2005. Within the sector, wholesale and retail trade, hotels and restaurants remained the major source of employment. In 2005, this sub-sector contributed 30.5 per cent of the total workforce in the sector (Table 20.2).

TABLE 20.2

**SHARE OF EMPLOYMENT IN THE SERVICES SUB-SECTORS TO TOTAL EMPLOYMENT**

| *Sub-sectors* | *1996* | | *2005* | |
|---|---|---|---|---|
| | *Persons ('000)* | *Share (%)* | *Persons ('000)* | *Share (%)* |
| **Total** | **4,686.0** | **55.6** | **6,314.3** | **58.0** |
| Wholesale and retail, hotels and restaurants | 1,365.2 | 16.2 | 1,927.2 | 17.7 |
| Other services | 747.8 | 8.9 | 1,118.2 | 10.3 |
| Government services | 904.1 | 10.7 | 1,052.8 | 9.7 |
| Construction | 796.0 | 9.5 | 759.6 | 7.0 |
| Finance, insurance, real estate and business services | 391.8 | 4.7 | 732.3 | 6.7 |
| Transport, storage and communication | 409.8 | 4.9 | 631.2 | 5.8 |
| Electricity, gas and water | 71.3 | 0.8 | 93.0 | 0.8 |

*Source*: Economic Planning Unit

### *(iii) Trade in Services*

20.08 During the period 1996-2005, the export of non-Government services expanded at an average rate of 9.4 per cent per annum from RM38.4 billion in 1996 to RM71.8 billion in 2005 (Table 20.3):

- the travel component was the largest export earner, increasing from RM11.3 billion in 1996 to RM32.4 billion in 2005. Tourists and excursionists to Malaysia were the largest contributors to travel exports, accounting for more than 95 per cent of the total travel receipts;
- transportation exports also increased from RM8.4 billion in 1996 to RM16.2 billion in 2005, the largest component being sea and air freight services; and
- other services which contributed to export receipts were other business services (merchanting and other trade, operational leasing services and miscellaneous business services), construction services, communication services, computer and information services, and insurance services.

Table 20.3

## EXPORTS OF NON-GOVERNMENT SERVICES

| Sub-Sector | 1996 | 2000 | 2005 |
|---|---|---|---|
| | (RM million) | | |
| **Total** | **38,393.0** | **52,483.2** | **71,774.5** |
| **Travel** | **11,264.2** | **19,042.9** | **32,354.6** |
| Tourism | 11,264.2 | 18,766.9 | 31,950.3 |
| Education | n.a[1] | 276.0 | 393.1 |
| Medical treatment | n.a | n.a | 11.2 |
| **Transportation** | **8,413.4** | **10,646.1** | **16,168.8** |
| Seafreight and other | 4,194.4 | 6,205.6 | 8,158.4 |
| Air | 4,219.0 | 4,440.5 | 8,010.4 |
| Freight and other | 1,061.5 | 1,166.3 | 1,529.8 |
| Passenger | 3,157.5 | 3,274.2 | 6,480.7 |
| **Other services** | **18,715.4** | **22,794.2** | **23,251.1** |
| Other business services | n.a. | 6,050.3 | 8,906.9 |
| Miscellaneous business services | n.a. | 5,715.0 | 7,081.9 |
| Operational leasing services | n.a. | 699.3 | 1,353.8 |
| Merchanting and other trade (net) | n.a. | -364.0 | 471.2 |
| Construction/installation services | n.a. | 1,195.0 | 3,025.0 |
| Communication/telecommunications/ postal/courier services | n.a. | 687.0 | 2,360.1 |
| Computer and information services | n.a. | 310.0 | 1,625.8 |
| Insurance services | n.a. | 592.9 | 1,037.5 |
| Financial services | n.a. | 608.0 | 227.1 |
| Personal/cultural/recreational/audiovisual services | n.a. | 125.0 | 212.2 |
| Royalties and licence fees | n.a. | 69.0 | 102.8 |
| Other services | n.a. | 13,157.0 | 5,753.7 |

*Note*: [1] Not available

*Sources*: Department of Statistics, *Bank Negara Malaysia,* Tourism Malaysia and National Carriers

20.09 During the period 1996-2005, imports of non-Government services grew at an average rate of 7.9 per cent per annum, from RM45.1 billion in 1996 to RM81.7 billion in 2005 (Table 20.4):

- imports by the transportation sub-sector increased more than two-fold, from RM14.9 billion in 1996 to RM31.9 billion in 2005. Within the transportation segment, freight transportation (both sea and air) constituted the largest import component;

- total imports of the travel component also doubled, from RM6.5 billion in 1996 to RM14.2 billion in 2005, reflecting the increasing trend of Malaysians travelling abroad; and

- other important services components imported included business services, including operational leasing and miscellaneous businesses, royalties and licence fees, construction, communication and insurance.





TABLE 20.4

**IMPORTS OF NON-GOVERNMENT SERVICES**

| *Sub-Sector* | *1996* | *2000* | *2005* |
|---|---|---|---|
| | *(RM million)* | | |
| **Total** | **45,109.6** | **63,090.9** | **81,673.8** |
| **Travel** | **6,462.5** | **7,885.5** | **14,236.8** |
| Tourism | 4,268.5 | 5,880.5 | 10,580.5 |
| Education | 2,194.0 | 2,005.0 | 3,599.2 |
| Medical treatment | n.a[1] | n.a | 57.1 |
| **Transportation** | **14,892.0** | **22,382.1** | **31,875.8** |
| Seafreight and other | 12,312.0 | 19,482.4 | 28,147.7 |
| Air | 2,579.9 | 2,899.7 | 3,728.1 |
| Freight and other | 1,413.9 | 1,120.7 | 1,349.2 |
| Passenger | 1,166.0 | 1,779.0 | 2,378.9 |
| **Other services** | **23,755.1** | **32,823.3** | **35,561.2** |
| Other business services | n.a. | 8,784.3 | 13,543.8 |
| Miscellaneous business services | n.a. | 8,033.0 | 11,006.5 |
| Operational leasing services | n.a. | 751.3 | 2,537.3 |
| Royalties and licence fees | n.a. | 2,075.0 | 4,550.6 |
| Construction/installation services | n.a. | 4,145.0 | 4,040.9 |
| Communication/telecommunications/ postal/courier services | n.a. | 878.0 | 2,578.2 |
| Insurance services | n.a. | 1,097.0 | 1,934.0 |
| Computer and information services | n.a. | 765.0 | 1,407.8 |
| Personal/cultural/recreational/ audiovisual services | n.a. | 266.0 | 694.4 |
| Financial services | n.a. | 666.0 | 445.4 |
| Commission and other charges on Federal Government loans | n.a. | 43.0 | 0.0 |
| Other services | n.a. | 14,104.0 | 6,366.1 |

*Note:* [1] Not available

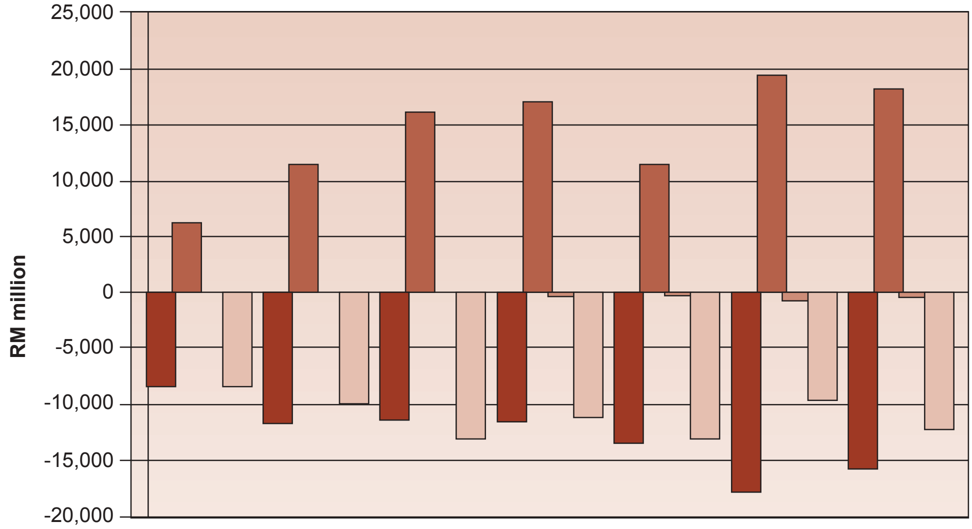
*Sources:* Department of Statistics, *Bank Negara Malaysia,* Tourism Malaysia and National Carriers

20.10 In terms of trade balance, during the IMP2 period, Malaysia continued to record a deficit in the non-Government services account, which amounted to RM6.7 billion in 1996 and widened to RM8.1 billion in 2004. Nevertheless, the negative balance was reduced by almost half in 2004, as a result of the recovery of the travel services sub-sector, compared with 2003. In 2005, the deficit widened to RM9.9 billion (Chart 20.1). An analysis of the trade in services account indicates:

- imports of transportation services, particularly freight services, contribute substantially to the overall deficit in the services account;
- the travel services segment assumes a significant role in reducing the deficit in the services account; and
- other segments in the services account which are beginning to indicate potential for exports in the long run include other business services, such as communication services, computer and information services, construction services, operational leasing services and miscellaneous business services, insurance services and education services.

CHART 20.1

**SERVICES ACCOUNT (NET)**




| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|
| **Non-Government Services** | | | | | | | |
| 1. Transportation | -8,464 | -11,736 | -11,352 | -11,572 | -13,486 | -17,783 | -15,707 |
| 2. Travel | 6,135 | 11,158 | 16,148 | 17,102 | 11,523 | 19,398 | 18,117 |
| 3. Other Services | -8,395 | -10,030 | -13,187 | -11,242 | -13,011 | -9,675 | -12,311 |
| **Government Services** | 23 | -62 | 25 | -284 | -327 | -721 | -350 |
| **Total** | **-10,701** | **-10,670** | **-8,366** | **-5,996** | **-15,300** | **-8,780** | **-10,249** |

**Year**

*Sources*: Economic Planning Unit and Department of Statistics

### *(iv) Comparison of Contribution of the Services Sector in Selected Countries*

20.11 The services sector assumes an important role in countries such as the United States of America (USA), Singapore, Hong Kong, Thailand and Ireland. Its importance is reflected in its:

- contribution to the GDP

  In 2004, the share of the services sector to the GDP for Hong Kong, at 91.8 per cent, the USA (80.4 per cent) and Singapore (70.1 per cent), was larger than that for Malaysia (60.3 per cent). The contribution of the services sector to the GDP for Thailand, at 49.9 per cent, and Ireland (44.6 per cent) was lower than that for Malaysia. The sector registered an annual growth of between 5.1 per cent and 7.8 per cent for most of the selected countries, except for Ireland, which recorded a lower growth rate of 3.8 per cent (Table 20.5); and

- share of employment

  In 2004, the contribution of the services sector to total employment was high in most of the selected countries. The sector accounted for 94.5 per cent of the total employment in Hong Kong, 79.2 per cent in Singapore and 79 per cent in the USA.

This pattern suggests that as a country develops, the services sector assumes an increasingly important role in the economy.

TABLE 20.5

**CONTRIBUTION OF THE SERVICES SECTOR TO GROSS DOMESTIC PRODUCT IN SELECTED COUNTRIES, 2004**

| | *USA* | *Hong Kong* | *Singapore* | *Ireland* | *Thailand* | *Malaysia* |
|---|---|---|---|---|---|---|
| Share to GDP | | | | | | |
| Services (%) | 80.4 | 91.8 | 70.1 | 44.6 | 49.9 | 60.3 |
| Manufacturing (%) | 12.7 | 3.7 | 25.1 | 40.8 | 38.7 | 31.6 |
| Primary sector (%) | 2.2 | 0.1 | 0.1 | 4.0 | 11.4 | 15.4 |
| GDP growth rate (%) | 4.4 | 8.1 | 8.4 | 4.9 | 6.1 | 7.1 |
| Services sector growth rate (%) | 5.1 | 7.8 | 6.4 | 3.8 | 6.5 | 6.4 |
| Share of services sector to total employment (%) | 79.0 | 94.5 | 79.2 | 65.0 | 43.1 | 57.8 |

*Sources*: USA: Bureau of Economic Analysis and Bureau of Labor Statistics; Singapore: Economic Survey of Singapore; Hong Kong: Central Statistics, Hong Kong; Thailand: National Economic and Social Development Board; Ireland: Central Statistics Office, Ireland; Malaysia: Economic Report 2004/2005 and *Bank Negara* Report 2004

## (b) Sectoral Linkages

### *(i) Contribution to the Overall Economy*

20.12 Inter-sectoral linkages between the services sector and the rest of the economy, as well as intra-sectoral linkages among the different services sub-sectors, together form a network of activities within the economy, from which productive value chains develop. Focus will be given on strengthening these links to add value to the Malaysian economy. Services which are offered, delivered and consumed in diverse ways through various channels of communication will feature more importantly during the IMP3 period. These linkages can be derived from Input-Output Tables, which explain the forward and backward connections between producers and consumers of services.

20.13 Based on the Input-Output Tables of 1991 and 2000, main users of services output were producers, which used them for intermediate purpose. Such intermediate demand represented 31.1 per cent of the services output in 1991 and 33.3 per cent in 2000. Private final consumption was the second largest user of the services output, absorbing 20.8 per cent in 1991 and 22 per cent in 2000. Among the services sub-sectors, intermediate demand was highest for business services, accounting for 82.3 per cent of their output in 1991. Water, electricity and gas, and wholesale and retail trade services registered high intermediate demand, constituting 80.9 per cent, 78 per cent and 73.2 per cent of their output in 2000, respectively.

20.14 Exports of the services sector lagged those of the manufacturing and primary sectors. External demand for services increased from 8.5 per cent in 1991 to 14.4 per cent in 2000. The services exported included:

- transport services, which registered the highest percentage in exports, at 38 per cent in 1991 and 53.2 per cent in 2000;

- business services, which recorded a significant increase in exports, from 12.1 per cent in 1991 to 45.6 per cent in 2000;

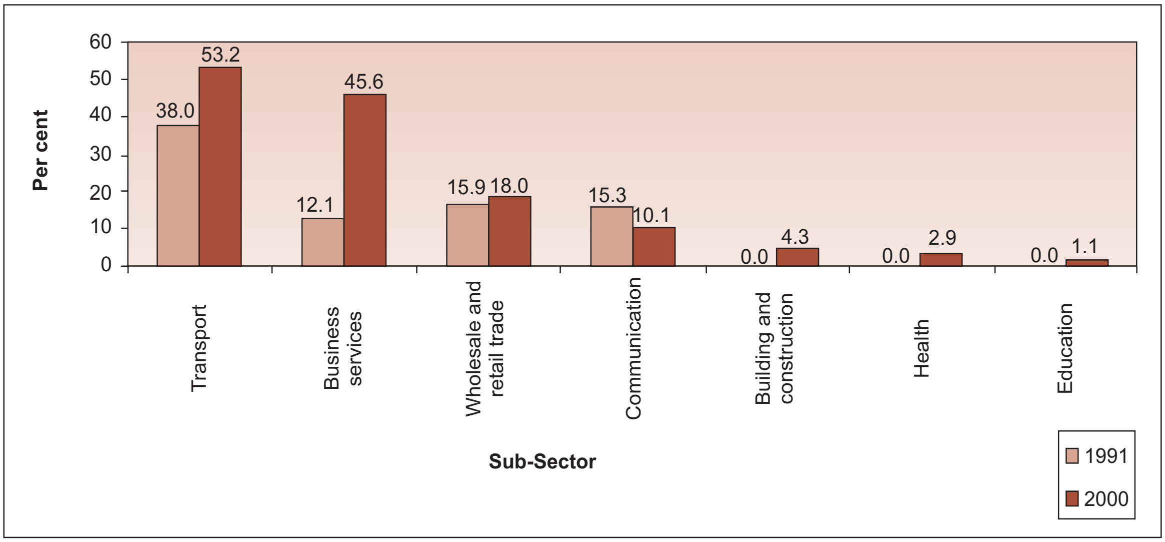
- wholesale and retail trade services, with exports amounting to 15.9 per cent in 1991 and 18 per cent in 2000; and

- communication services, which exported 15.3 per cent of their output in 1991 and 10.1 per cent in 2000.

Building and construction, health services and education services sub-sectors did not export their output in 1991. Exports were registered in 2000, at 4.3 per cent, 2.9 per cent and 1.1 per cent, respectively (Chart 20.2).

Chart 20.2

**EXPORTS OF SELECTED SERVICES SUB-SECTORS (1991, 2000)**




*Source*: 1991 and 2000 Input-Output Tables, Department of Statistics

20.15 During the IMP3 period, exports of services are expected to grow through all four modes of trade, namely, cross border trade, consumption abroad, commercial presence and movement of natural persons (Box 20.1). Nevertheless, the bulk of the services output will continue to meet the needs of domestic consumption.

### *(ii) Share of Domestic and Imported Inputs in Services Production*

20.16 Intermediate demand consumed the largest share of imported services in 1991, at 86.7 per cent, and 2000 (88.2 per cent). During the same period, the proportion of imported services used by private final consumption declined from 13.2 per cent in 1991 to 8.5 per cent in 2000. The Input-Output Tables also indicated that the share of imported inputs in the production of services almost doubled, from 18.8 per cent in 1991 to 35.8 per cent in 2000. Correspondingly, the share of domestic inputs declined from 81.2 per cent to 64.2 per cent. For some services sub-sectors, such as insurance, private non-profit services, radio and television, and other financial services, their share of imported inputs declined, while their share of domestic inputs expanded.

20.17 In general, the Input-Output analysis indicates that:

- the imported component of the services inputs has increased;

- the capacity of domestic inputs has grown for five sub-sectors, namely, electricity and gas, insurance and other financial services, private non-profit services, radio and television, and commercial services;

- in tandem with social and economic advancement, there have been further developments in education, health, utilities, public administration and infrastructure; and
- the bulk of the services activities which contribute to economic growth are expected to be connected to activities within the services sector itself, as well as to the manufacturing, agriculture and mining industries.

Box 20.1

**FOUR MODES OF THE SERVICES TRADE**

Under the World Trade Organisation (WTO) General Agreement on Trade in Services (GATS) and the ASEAN Framework Agreement on Services (AFAS), committed services sub-sectors are classified, based on the Central Product Classification (CPC) and four modes of the services trade:

Mode 1 - Cross Border Trade

Refers to the supply of services by service producers of one country to purchasers in another country, but where there is no movement of the service supplier or purchaser across borders. The advancement of technology has made this possible, for example, through the Internet (e-trading), pipelines for oil and gas, and services embodied in goods, such as books or recording media.

Mode 2 - Consumption Abroad

Refers to the supply of services in the territory of one country to the service consumer of another country. It involves the purchaser travelling to the other country in which the service is produced. Examples include tourism and education services.

Mode 3 - Commercial Presence

Refers to the supply of services by a service producer of one country through the commercial presence in the territory of another country. This mode includes foreign direct investments (FDIs) in services.

Mode 4 - Movement of Natural Persons

Refers to the supply of service by a service personnel who travels to another country to provide the service. This includes services provided by expatriates, business and professional services abroad and services of foreign workers.

### *(iii) Forward Linkages*

20.18 Forward linkages indicate the importance of an industry or sector as a supplier of services as inputs to other industries or sectors. They also reflect the potential 'forward' multiplier effects of the services industry to the economy. Analysis of the forward linkages indicates:

- during 1991 and 2000, intra-sectoral linkages, that is, linkages within and among the services sector, had been strongest. This was followed by inter-sectoral linkages with the secondary (manufacturing) sector. The lowest forward linkages were observed with the primary (agriculture and mining) sector (Chart 20.3);

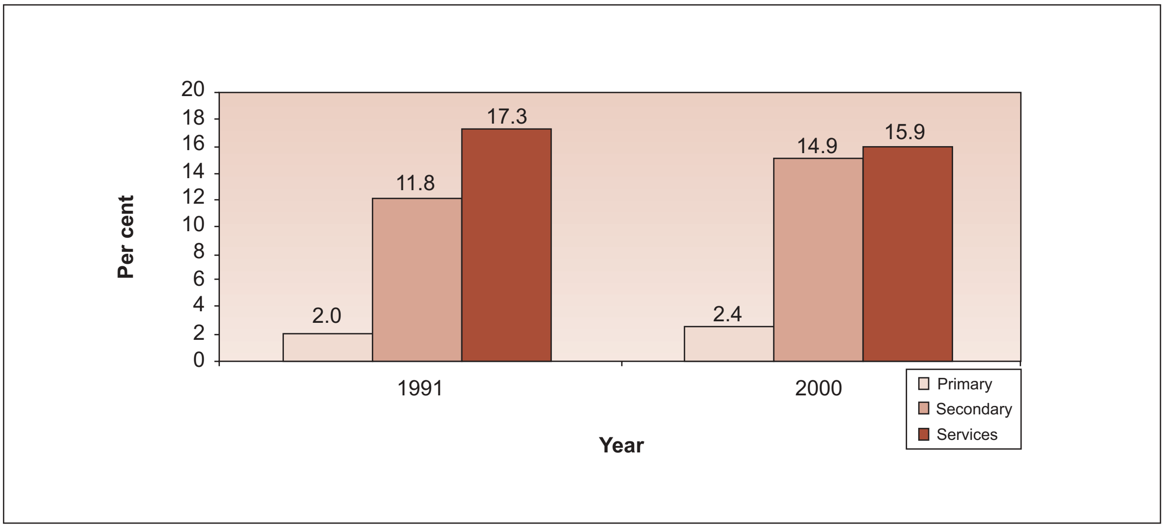
- forward linkages with the manufacturing sector increased during the two years, indicating the rising importance of services inputs for manufacturing processes. These linkages are expected to strengthen, with the further promotion of manufacturing-related services. Enhancing the efficiency and competitiveness of the services output will, therefore, have greater multiplier effects on the future performance of other economic activities, including manufacturing;

- in 2000, the wholesale and retail trade sub-sector registered the strongest forward inter-sectoral linkages with the manufacturing sector, where 57.6 per cent of its total output was used by the sector. Electricity and gas recorded the strongest forward inter-linkages with the secondary sector, where 33.9 per cent of their total output was used by manufacturing industries in 1991. Business and professional services registered the strongest forward inter-linkages with the primary sector, where 13.4 per cent of their total output was used by the sector in 2000; and

- in terms of forward intra-sectoral linkages, the real estate services sub-sector registered the strongest links, where 64.2 per cent of its total output was used by the services sector in 1991 and 70.5 per cent in 2000.

CHART 20.3

**FORWARD LINKAGES OF THE SERVICES SECTOR**




*Source*: 1991 and 2000 Input-Output Tables, Department of Statistics

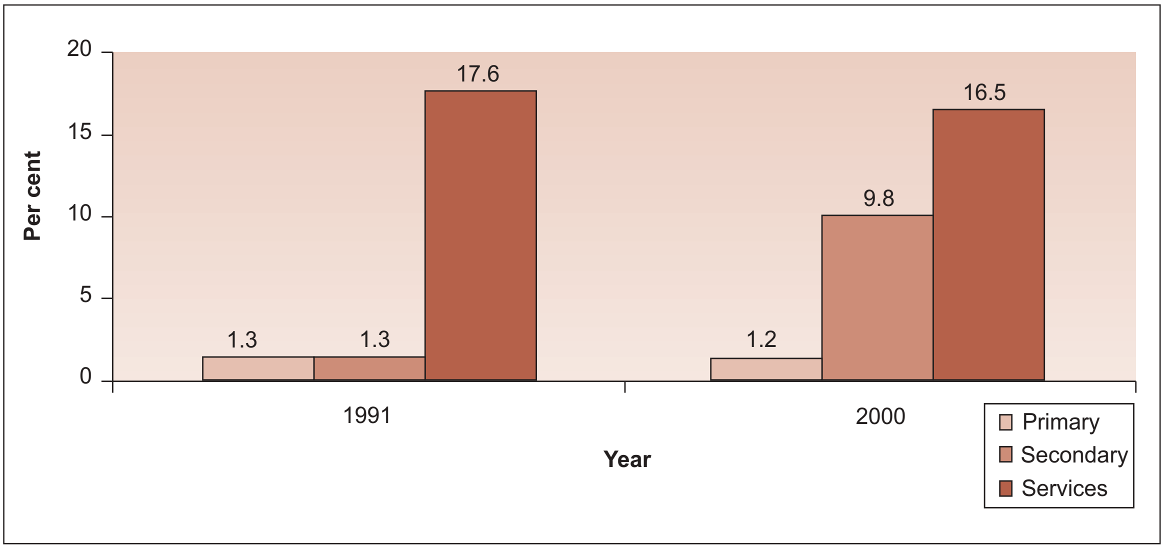
### (iv) Backward Linkages

20.19 Backward linkages measure the importance of an industry or sector as a purchaser of inputs (goods and services) from other industries or sectors. They also indicate the potential of the purchaser industry or sector for indirect 'backward' multiplier effects to the economy. The Input-Output Tables indicated that:

- the services sector registered the strongest backward linkages within the services sector itself during 1991 and 2000. The backward inter-sectoral linkages between the services sector and the secondary or manufacturing sector increased significantly from 1.3 per cent in 1991 to 9.8 per cent in 2000, but remained negligible with the primary sector (Chart 20.4);
- backward linkages of the defence services sub-sector with the secondary sector were recorded at 15.3 per cent in 2000. The hotels and restaurants services sub-sector registered the strongest backward linkages with the primary sector, at 10 per cent in 2000; and
- the strongest backward intra-sectoral linkages in 1991 were in the insurance sub-sector, in which 38.2 per cent of its total inputs were obtained from within the services sector itself. However, in 2000, the strongest intra-sectoral linkages were in the radio and television sub-sector, at 76.6 per cent.

CHART 20.4

**BACKWARD LINKAGES OF THE SERVICES SECTOR**




*Source*: 1991 and 2000 Input-Output Tables, Department of Statistics

*(v) **Backward and Forward Linkages for the Targeted Services Sub-Sectors***

20.20 Backward and forward linkages of the targeted services sub-sectors with the primary, secondary and services sectors are indicated in Charts 20.5 and 20.6. A high concentration of linkages took place between these sub-sectors. Based on the analysis of the Input-Output Tables for 1991 and 2000, indications on the future direction of the services sector include:

- the country gradually becoming a service oriented economy; and
- with appropriate policy measures, inter-sectoral linkages can be further strengthened, providing growth potential for services to support the secondary and primary sectors.

20.21 Inter-sectoral and intra-sectoral forward and backward linkages are expected to undergo changes during the IMP3 period. The shift in demand and supply conditions of a service-based economy will drive structural changes. The production and supply value chains will operate through key economic linkages or networks. These networks will comprise business producers, buyers, suppliers, traders, regulators and Government agencies within and outside the country. These services activities are expected to facilitate trade and investments in goods and services.

**(c) Malaysia's Commitments under the International Services Agreements**

20.22 Malaysia subscribes to the principle of progressive liberalisation in the services sector, as part of the overall development strategy. An increasing number of the services sub-sectors have been liberalised over the years, both autonomously, as well as through commitments at the international level. The commitments include those under GATS and AFAS. In addition, Malaysia is negotiating a number of bilateral trade agreements, which include a services liberalisation component.

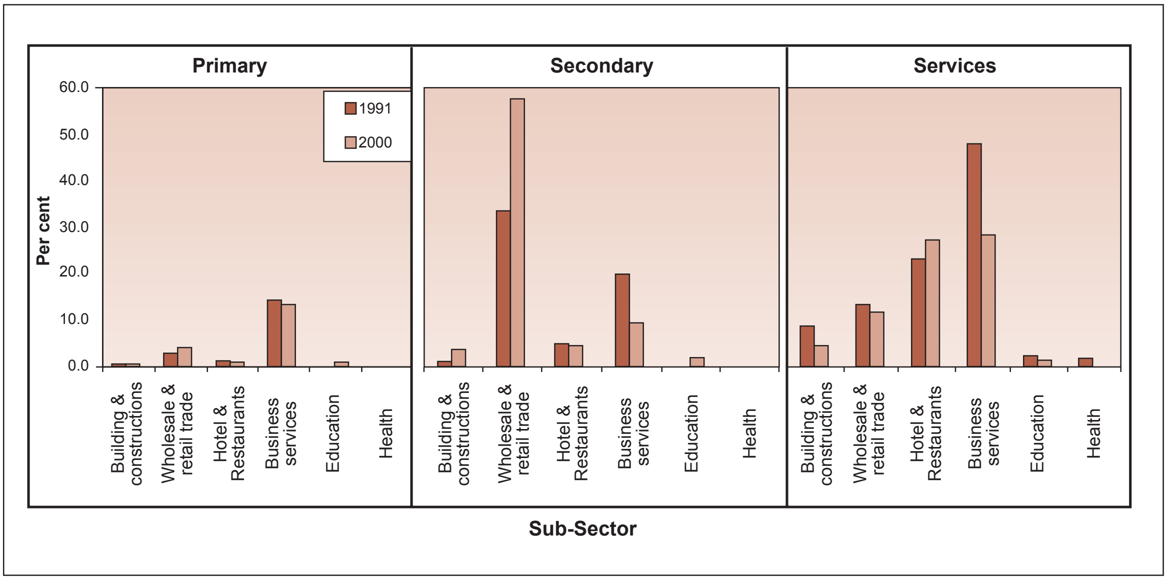
*(i) **Commitments under the WTO***

20.23 Malaysia's existing initial commitments in the services sector under the WTO were the result of negotiations in the Uruguay Round. The commitments under the market access and national treatment provisions are subject to certain conditions or limitations or reservations in the four modes of supply. These include:

- limitations on foreign equity ownership (generally 30 per cent);
- requirement of foreign service suppliers to establish commercial presence through joint-ventures with local firms; and
- limitations on the number of foreign personnel allowed to provide the services.

CHART 20.5

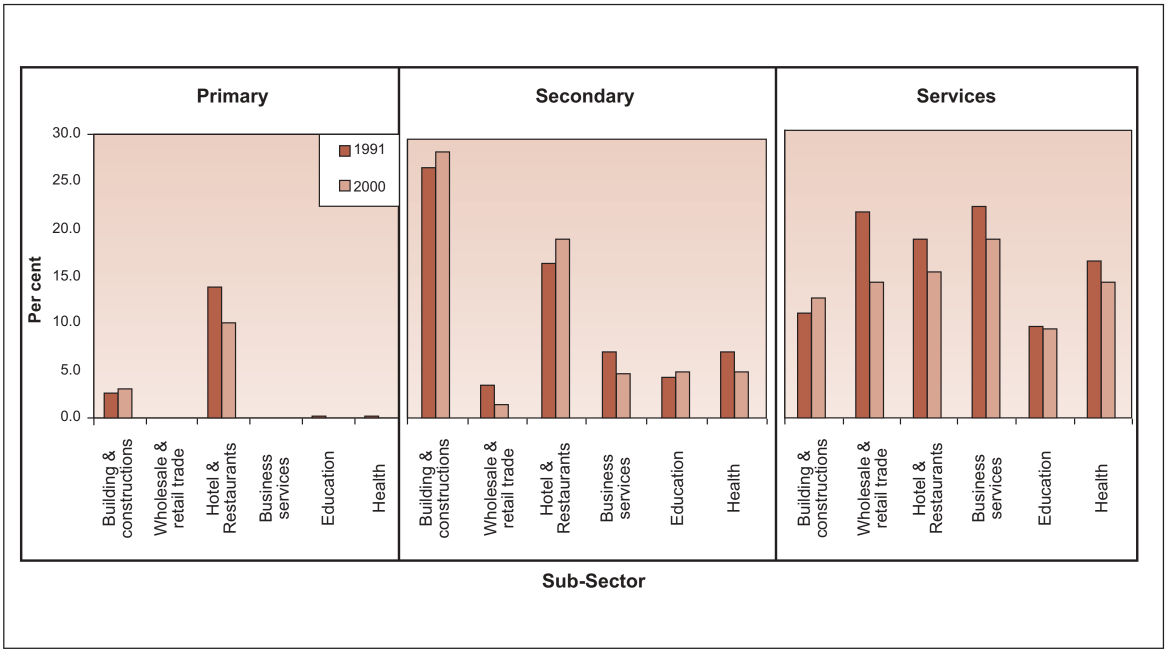
**FORWARD LINKAGES OF THE TARGETED SERVICES SUB-SECTORS**




*Source*: 1991 and 2000 Input-Output Tables, Department of Statistics

CHART 20.6

**BACKWARD LINKAGES OF THE TARGETED SERVICES SUB-SECTORS**




*Source*: 1991 and 2000 Input-Output Tables, Department of Statistics

20.24 The services sub-sectors offered to foreign service providers under the GATS are:

- business services (legal; accounting, auditing and book-keeping; taxation; architectural; engineering; medical speciality; computer and related services; research and development (R&D); advertising; management consulting; services incidental to agriculture and fishing, and manufacturing; technical testing and analysis; student placement; market research and public opinion polling; translation and interpretation; convention and exhibition management; landscaping; and operational headquarters services);
- communication services (telecommunications and audiovisual services);
- construction and related engineering services;
- financial services;
- health related social services (hospital services);
- tourism and travel related services (hotels, tourist resorts and restaurants, travel agencies and tour operators);
- recreational, cultural and sporting services (other entertainment and sports events management services);
- transportation services (international maritime transportation, maritime agency services, and vessel salvage and re-floating services, except on inland waters); and
- skills training services.

***(ii) Commitments under the ASEAN Framework Agreement on Services***

20.25 Under the AFAS, Malaysia had made commitments to liberalise the services sector through expanding and deepening the GATS commitments, covering all modes of supply for common sectors and sub-sectors. The common sectors and sub-sectors include business services (accounting, auditing and book-keeping, computer and related services, engineering services, architectural services, landscape architectural services); telecommunications; maritime freight forwarding services; theme parks (tourism services sub-sector); construction services, leasing or rental of construction machinery and equipment; hotels, travel agencies and tour operators; and wholesale and retail trade. There will be benefits from the further liberalisation of the services sector under the GATS and AFAS. Increasing foreign participation in the sector will facilitate the development of the domestic industry. Benefits to be derived include transfer of technology, enhancement of knowledge and access into foreign markets.

## SECTION III BUSINESS AND PROFESSIONAL SERVICES

20.26 Business and professional services in the IMP3 comprise:

***Business Services***

- shared services or outsourcing and offshoring of business activities, which include services such as back office operations, call or contact centres, ICT support or data centres and operational headquarters (OHQs); and
- regional establishments, such as representative and regional offices.



***Professional Services***

- In order to practise, accredited professional service providers will need to become members of a body or association which governs the profession. Professional services include accounting, book-keeping and auditing; tax consultancy; legal; architectural; engineering and other technical services; and
- non-accredited professional service providers, for whom membership with a governing body is not mandatory and not a pre-requisite in order to practise. These include R&D, advertising, market research, management consultancy, and environmental and energy services.

Some of the core activities of business and professional services under AFAS, such as shared services and non-accredited professional services (including R&D and integrated market support services), are promoted under the Promotion of Investments Act, 1986 and Income Tax Act, 1967.



### (a) Present Status

20.27 The contribution of business and professional services to the GDP has been estimated from statistics under the category of finance, insurance, real estate and business services. Their contribution to the GDP increased from RM20.2 billion or 11 per cent in 1996 to RM39.6 billion (15.1 per cent) in 2005. Under professional services, the accredited professional services registered a lower GDP contribution from 1.7 per cent in 1996 to 1 per cent in 2002. During the same period, advertising services, under non-accredited professional services, also registered a marginally lower contribution to the GDP from 0.11 per cent to 0.08 per cent (Table 20.6). During the same period, employment grew at an average annual rate of 7 per cent to 732,300 persons in 2005.

### (b) Industry Structure

20.28 The sub-sector is one of the fastest growing sub-sectors. Its contribution towards industrial development gained in importance during the IMP2 period.

The types of services provided and the delivery methods have undergone changes, largely driven by advancements in technology, in particular, ICT.

TABLE 20.6

**CONTRIBUTIONS OF SELECTED BUSINESS AND PROFESSIONAL SERVICES**

| | *Accredited Professional Services[1]* | | *Advertising Services* | |
|---|---|---|---|---|
| | *1996* | *2002* | *1996* | *2002* |
| Share of GDP (%) | 1.67 | 0.98 | 0.11 | 0.08 |
| Share of employment (%) | 0.93 | 0.87 | 0.05 | 0.04 |

*Note*: [1] Include legal services, accounting services, architectural consultancy, drafting consultancy, engineering consultancy and surveying services

*Sources*: National Product and Expenditure Accounts 1987-2003; Labour Force Survey Reports 1996-2000 and 2002; Census of Professional and Institutional Establishments 2000; and Economic Census Malaysia – Selected Services 2001: Department of Statistics

### (i) Business Services

#### *Shared Services and Outsourcing*

20.29 The growth of shared services and business process outsourcing in recent years has been driven by major factors, such as the orientation of companies in focusing on their core competencies, growing availability of competitive outsourcing service providers, and automation and codification of best practices, as well as the liberalisation of investment regime relating to FDIs. According to the World Investment Report 2004, the offshore outsourcing of business processes is expected to grow from US$1.3 billion in 2002 to US$24 billion in 2007. Common activities outsourced include information technology (IT), accounting and legal services, maintenance, market research, human resource, consultancy services and marketing related activities.

20.30 For two consecutive years (2004 and 2005), the AT Kearney's Global Services Location Index (previously known as the Offshore Location Attractiveness Index) ranked Malaysia as the third most attractive business location for offshoring activities, behind India and the People's Republic of China. Malaysia's favourable performance was attributed to, among others:

- its continued investments in modern infrastructure in Multimedia Super Corridor of Malaysia (MSC Malaysia);
- enhancement in incentives to make them more attractive for companies to locate in Malaysia; and

- measures on the liberalisation of employment and upgrading of English language and technical skills among the workforce.

20.31 As at 31 December 2005, a total of 1,421 companies were granted MSC status. Of these, 1,033 were majority Malaysian-owned, 349 majority foreign-owned and 39 equally owned by Malaysian and foreign interests. The MSC Malaysia focuses on capturing offshore shared services projects, where customers are primarily located outside Malaysia. By the end of 2010, Multimedia Development Corporation (MDeC) aims to create 100,000 jobs in high value shared service outsourcing in the MSC Malaysia. By 2020, the number of jobs to be created is projected to grow to 600,000.



20.32 As at December 2005, a total of 106 OHQs have been approved by the Malaysian Industrial Development Authority (MIDA) for establishment in Malaysia. Of these, 82 have started operation. These companies are located outside the MSC Malaysia and engaged in providing business services, including outsourcing, R&D, back room operations and other qualifying business services, to their groups of related companies within and outside Malaysia.



20.33 Based on a survey conducted in 2005 on companies operating in Malaysia, which outsourced value creation activities, common advantages which they derived from outsourcing included:

- easy access to specialised services and technology;
- enhanced productivity;
- familiarity of local conditions;
- more efficient delivery of services;
- greater accountability in costing and cost saving;
- improved supply chain management; and
- ability to turn fixed costs into variable costs.

Respondent companies expressed their intention to continue to outsource their business services in Malaysia in the future.

***Regional Establishments***

20.34 Regional establishments provide intermediate service inputs to the operations of multinational corporations (MNCs) and their affiliates globally. As at December 2005, a total of 552 regional offices and 1,252 representative offices had been approved. These offices provide feedback to their parent companies on the opportunities for business in Malaysia and the region in the medium to long terms. These regional establishments do not undertake any commercial transactions and are primarily engaged in data collection and fact finding.

### (ii) Professional Services

***Accredited Professional Services***

20.35 During the period 1996-2003, the number of establishments in legal, accounting, architectural, drafting, engineering and surveying consultancy services increased from 4,808 in 1996 to 6,961 in 2003. The gross output of these services increased from RM4.5 billion in 1996 to RM6.1 billion in 2003. During the period, employment in these establishments increased from 78,465 persons in 1996 to 88,285 in 2003. Engineering consultancy and legal services formed the major segments, accounting for 58 per cent of the gross output in 2003. These two services were also the major sources of employment, absorbing 55 per cent of the total employment in accredited professional services in 2003 (Table 20.7).

TABLE 20.7

**ACCREDITED PROFESSIONAL SERVICES - NUMBER OF ESTABLISHMENTS, OUTPUT AND EMPLOYMENT**

| | *No. of Establishments* | | *Gross Output (RM '000)* | | *Employment (Persons)* | |
|---|---|---|---|---|---|---|
| | *1996* | *2003* | *1996* | *2003* | *1996* | *2003* |
| **Total** | **4,808** | **6,961** | **4,542,828** | **6,088,401** | **78,465** | **88,285** |
| Engineering consultancy | 505 | 718 | 1,440,968 | 1,963,305 | 16,568 | 15,903 |
| Legal | 2,078 | 3,108 | 1,144,209 | 1,588,545 | 25,979 | 32,288 |
| Accounting | 985 | 1,383 | 634,466 | 999,999 | 15,816 | 19,225 |
| Surveying | 498 | 690 | 627,470 | 767,419 | 11,563 | 11,007 |
| Architectural consultancy | 578 | 914 | 682,887 | 752,717 | 8,063 | 9,367 |
| Drafting consultancy | 164 | 148 | 12,828 | 16,416 | 476 | 495 |

*Source*: Census of Professional Services (Private Sector), 2004, Department of Statistics

20.36 The value-added contribution of the accredited professional services decreased by 4.7 per cent, from RM4.2 billion in 1996 to RM4 billion in 2003. This was largely due to the weak performance of the construction industry, which affected its related services (architectural and drafting consultancy, engineering and surveying services). In contrast, during the period, accounting and legal services registered increases in value-added of 32.7 per cent and 12 per cent, respectively (Table 20.8).

Table 20.8

**CONTRIBUTION OF THE ACCREDITED PROFESSIONAL SERVICES TO THE GROSS DOMESTIC PRODUCT**

| | *Value-Added (RM million)* | | *Value-Added as Percentage of GDP (%)* | |
|---|---|---|---|---|
| | *1996* | *2003* | *1996* | *2003* |
| **Total** | **4,237** | **4,038** | **1.7** | **1.7** |
| Legal | 1,062 | 1,189 | 0.4 | 0.5 |
| Engineering consultancy | 1,349 | 1,146 | 0.5 | 0.5 |
| Accounting | 597 | 792 | 0.2 | 0.3 |
| Architectural consultancy | 638 | 460 | 0.3 | 0.2 |
| Surveying consultancy | 579 | 441 | 0.2 | 0.2 |
| Drafting consultancy | 12 | 10 | neg.[1] | neg. |

*Note*: [1] Negligible
*Sources*: Census of Professional Services (Private Sector), 2004,
National Product and Expenditure Accounts, 1996-2003, Department of Statistics

### (iii) Non-Accredited Professional Services

***Market Research Services***

20.37 Market research services recorded double digit growth during the IMP2 period. Industry sources indicated:

- in 2004, market research services recorded an estimated annual gross revenue of RM200 million, of which 50 per cent were contributed by foreign companies operating in Malaysia;
- an increasing number of companies outsourced their market research requirement to independent companies to gather information on market intelligence, consumer preferences and brand loyalty; and
- the majority of the firms in the market were foreign-owned, while smaller local companies compete in niche areas.

The market research services are expected to grow further, as more businesses become aware of the importance of market intelligence.

***Management Consultancy Services***

20.38 Management consultancy services comprise services related to IT, financial management, market and feasibility studies, strategic planning, business process re-engineering, change and risk management, and other advisory services. The services are expected to grow, in view of the increasing pace and complexity of new ventures and the sophistication in business models and work processes. The demand for other types of consultancy services, such as energy and environmental consultancy services and technical testing, is also expected to increase. The provision of energy consultancy services is a relatively new business in Malaysia. There is, therefore, potential for the growth and development of these services among local service providers.

### *Advertising* Services

20.39 The total number of establishments in advertising services increased from 143 in 1996 to 212 in 2003. During the period 1996-2003, the share of value-added of advertising services to the GDP was at 0.1 per cent. Gross output per employee increased from RM436,306 in 1996 to RM560,018 in 2003. The lower employment in the advertising services, from 4,079 persons in 1996 to 3,855 in 2003, contributed to an improvement in productivity, as reflected by an increase in value-added per employee, from RM65,900 in 1996 to RM86,700 in 2003. Competition in these services was more towards concentration and between local and large international agencies.

### *Research and Development Services*

20.40 R&D services are directly utilised as inputs for key manufacturing processes to enhance the efficiency, productivity and innovativeness of firms. The services cut across industries. Their importance varies by industry and the stage of the product lifecycle. In view of their importance, many firms have established in-house R&D units, which serve internal and intra-company needs. Independent R&D companies provide R&D consultancy services to third party companies. These activities are promoted under the Promotion of Investments Act, 1986 and Income Tax Act, 1967.

### *Energy Services*

20.41 Energy sources, including petroleum, natural gas, coal, renewable energy, and primary and secondary electricity sectors, each provides a specific market for energy services. These energy services are required at each stage of the energy chain, from the location of the potential energy source to its distribution to the final consumer.

20.42 There are 12 firms involved in the upstream exploration and development activities for oil and gas, including Petronas Carigali, the only Malaysian-owned company. The upstream stage of exploration, which is highly specialised, is closely related to the construction and fabrication industry. The exploration and development activities for oil and gas have created backward linkages, with the setting up of companies to service the construction of oil rigs, offshore platforms and pipelines for use in the oil and gas industry.

***Environmental Services***

20.43 Environmental services include equipment (such as for water supply and delivery, treatment of waste water, waste handling, air pollution control and laboratory testing), services (such as engineering design, construction and management of utilities, waste collection and processing, and legal and consultancy services) and resources (such as sale of water, recovered materials and renewable energy) relating to the environment.

20.44 Environmental services are provided to the Federal Government, local authorities and manufacturing companies which need to comply with environmental requirements. The emerging trend in these services is the growth potential associated not only with the compliance to rules and regulations, both at the national and international levels, but also their expanding capacity as a source of technological innovation, competitive advantage and benchmarking with international service standards. Privatisation of these services has expanded the role of the private sector in the delivery of the environmental services.

20.45 Presently, the following environmental services are eligible for incentives under the Promotion of Investments Act, 1986:

- storage, treatment and disposal of toxic and hazardous wastes;
- energy conservation;
- waste recycling activities; and
- use of renewable energy resources.

As at 2005, a total of 97 companies were granted incentives, involving investments of RM2 billion. Of the total, 52 companies had started operations.

**(c) Growth Prospects**

20.46 The market for accredited professional services is largely domestic, with an insignificant level of exports. In view of liberalisation, there will be increasing competition from foreign firms. Malaysian accredited professional service providers will need to be prepared for competition, once the market is liberalised. With the implementation of the ASEAN Free Trade Area (AFTA), the market for accredited professional services will expand beyond Malaysia. Domestic service providers are likely to compete with foreign firms. The mutual recognition arrangements (MRAs), which are being negotiated, will be a step closer to encourage competition within the ASEAN region.

20.47 The future development and growth of non-accredited professional services differ by the type of services:

- management consultancy services are envisaged to have favourable growth prospects, as the business environment has become more competitive and complex;

- environment services will become more important, especially in the longer term, when third generation environment services (services which will assist companies in pursuing resource efficiency, high productivity and increased competitiveness) assume a greater role in determining the competitiveness of firms through cleaner and more efficient production technology;

- the potential for R&D services will become greater, as industries focus on product and process developments and innovations, as well as expand into downstream activities; and

- strategic planning for energy services is important for Malaysia, as the energy requirement is positively correlated with economic development. In this respect, there is a need to develop and promote energy services to become efficient and competitive. Through backward and forward linkages, PETRONAS assumes the key role in stimulating the energy services to be self-sufficient, at least in certain service areas.

## SECTION IV DISTRIBUTIVE TRADE SERVICES

20.48 The distributive trade services sub-sector comprises wholesaling, retailing, franchising, direct selling, catering and restaurants. It also includes commission agents or representatives, including those of international trading companies, as well as distributors of motor vehicles and other consumer durable goods. Apart from undertaking distribution, some of these distributors perform other important tasks, including repair and maintenance services of goods.

20.49 The sub-sector has undergone structural changes during the IMP2 period, which are evident in the format and modes of delivery of the services, as well as new types of distribution outlets. Notable changes are those related to the greater number of huge malls and shopping complexes, hypermarkets and speciality stores. The entry of foreign retailers, for example, operators of hypermarkets, further changed the profile of the sub-sector. These operators have integrated the wholesale and retail functions. The dynamics within this sub-sector have created new activities and services, which contributed to the development of more comprehensive and innovative supply chain activities, resulting in greater international networking and outsourcing.

**(a) Present Status**

20.50 Main features of the sub-sector were:

- 284,171 establishments in 2001;
- average annual growth of 4 per cent, with the contribution to the GDP increasing from RM23.9 billion in 1996 to RM33.1 billion in 2005;
- increase in total sales from RM159.6 billion in 2000 to RM205.6 billion in 2005;
- largest revenue generators were wholesale services, which contributed 46.2 per cent and 70.2 per cent of the total revenues in 2001 and 2005, respectively;
- contribution of 28.8 per cent by retail trade to the total revenues in 2001, followed by distribution of motor vehicles (19.6 per cent);
- generation of employment of 1.3 million workers in 2005, compared with 1.1 million in 2000. Retail trade services contributed the highest share of total employment in the sub-sector;
- growth in productivity, in terms of value added per employee, at an average annual rate of 0.4 per cent. Productivity per worker was highest in wholesale trade services. Retail trade and restaurants, which employed a greater number of less skilled workers, recorded lower productivity;
- wholesale trade services registered the largest share (50 per cent) in investments in fixed assets, valued at RM13.3 billion in 2001(Table 20.9);
- to promote Malaysia as a regional and global trading centre, the Government started promoting international procurement centres (IPCs) in 1996 and regional distribution centres (RDCs) in 2003. As at December 2005, a total of 177 IPCs and ten RDCs had been approved. Total annual sales turnover of the IPCs and RDCs in 2005 was estimated at RM59.1 billion; and
- during the IMP2 period, the sub-sector developed linkages with transport and communication, agriculture, manufacturing and tourism. The sub-sector also recorded increased linkages with the financial sector, as a result of the rising trend in cashless transactions.

**(b) Investments**

20.51 Based on the Census of Distributive Trade 2002, the total fixed assets of the distributive trade services in 2001 were valued at RM26 billion. During the period 2003-2005, the Ministry of Domestic Trade and Consumer Affairs approved 758 projects in distributive trade, with total investments of RM2.5 billion. Of the total investments, 56.5 per cent were foreign-owned. Investments in hypermarkets contributed RM1.4 billion, or 56 per cent, of the total investments.

TABLE 20.9

**PROFILE OF THE DISTRIBUTIVE TRADE SERVICES SUB-SECTOR, 2001**

| *Activity* | *Establishments* | | *Number of Workers* | | *Productivity per Worker* | *Fixed Assets* | | *Revenue* | |
|---|---|---|---|---|---|---|---|---|---|
| | *Number* | *Share (%)* | *('000)* | *Share (%)* | *(RM '000)* | *(RM million)* | *Share (%)* | *(RM million)* | *Share (%)* |
| **Total** | **284,171** | **100.0** | **1,172** | **100.0** | **22.2** | **26,031** | **100.0** | **248,680** | **100.0** |
| Wholesale | 16,386 | 5.8 | 180 | 15.3 | 61.7 | 13,258 | 50.9 | 114,992 | 46.2 |
| Retail | 153,660 | 54.1 | 512 | 43.7 | 15.6 | 7,693 | 29.6 | 71,654 | 28.8 |
| Motor vehicles | 31,800 | 11.2 | 148 | 12.6 | 28.8 | 3,166 | 12.2 | 48,862 | 19.6 |
| Restaurants | 82,325 | 29.0 | 332 | 28.3 | 8.1 | 1,914 | 7.4 | 13,172 | 5.3 |

*Source*: Census of Distributive Trade 2002, Department of Statistics

20.52 Since the late 1990's, as a result of policy liberalisation, the sub-sector had attracted foreign participation, mainly in the larger hypermarkets, superstores, departmental stores and speciality stores. The foreign operators are larger and driven by innovations and application of ICT. They adopt modern methods of operations and management strategies. In addition, they enjoy economies of scale and scope, and receive support from their foreign networks, which provide a source of competitive advantage.

## (c) Industry Structure

### *(i) Wholesale Trade*

20.53 The wholesale trade has undergone structural transformation, characterised by rising productivity and concentration into larger businesses by foreign-owned firms:

- although the total number of establishments declined from 22,940 in 1993 to 16,386 in 2001, their contribution to revenues increased from RM101.6 billion to RM115 billion;

- productivity per worker also increased from RM55,700 in 1993 to RM61,700 in 2001; and

- in 2005, wholesale establishments contributed RM144.3 billion of the sales turnover in the distributive trade sub-sector.

20.54 In terms of management capabilities and performance, although 98.4 per cent of the total establishments were Malaysian-owned, the foreign-owned firms were larger in size and were more advanced relatively, in terms of management approaches, operational systems, technology and productivity. In terms of revenue generation, the largest activity of the wholesale trade was in non-agriculture intermediate products, at 36.5 per cent, followed by agriculture produce, covering fruits and vegetables, livestock and poultry, food, and beverages and tobacco (26.8 per cent), and household goods (18.9 per cent).

***(ii) Retail Trade***

20.55 The retail trade business mainly comprises specialised retail outlets and non-specialised retailers. In 2001, out of the total 153,660 retail establishments (other than motor vehicles and restaurants), 41.9 per cent were involved in specialised stores, followed by non-specialised stores (33.1 per cent), such as provision stores, supermarkets, superstores, hypermarkets, convenience stores and mini markets. As at 2001, 99.7 per cent of the retail establishments were Malaysian-owned. Main features of the retail trade business are:

- specialised retail outlets form the majority of the establishments in the retail trade business. In 2001, they constituted 66.8 per cent of the total number of establishments of 153,660 and generated 71.4 per cent of the total revenues of RM71.7 billion in retail trade; and

- the non-specialised retailers are becoming increasingly visible, as reflected in the number of large hypermarket chain outlets and the sales revenues of provision stores. Although the number of departmental stores increased only marginally from 29 in 2000 to 33 in 2005, their total sales increased from RM638 million in 2000 to RM883 million in 2005. With the exception of mini-markets and provision stores, non-specialised retail outlets recorded declines in productivity.

20.56 Other types of retail trade business are franchising and direct selling. Increasingly, the retail trade business is transacted through e-commerce. The main features and development of these businesses are:

- the number of franchisors increased from 90 in 2000 to 204 in 2005. In terms of franchisees, the number increased at an average annual rate of 3.7 per cent, from 2,159 in 2000 to 2,584 in 2005. The franchisees were mainly involved in the distribution of household, food and automotive products;

- the number of direct selling licences registered a decline, from 772 in 1996 to 385 in 2001. From 2002 onwards, direct selling activities recorded an expansion, with the number of licences issued in 2005 totalling 569. The sales turnover from direct selling activities increased from RM4.5

billion in 2000 to RM5.3 billion in 2005. Direct selling activities were mainly in the distribution of locally manufactured products, such as herbal and other health supplements, handicraft, cosmetics, food products and footwear; and

- e-commerce expanded at an average annual rate of 81.8 per cent, from RM11.1 billion in 2003 to RM36.7 billion in 2005. This was largely attributed to the rise in e-commerce transactions in the business-to-business category during the period, from RM7.7 billion to RM29.3 billion, while the business-to-consumer category increased from RM3.4 billion to RM7.4 billion during the same period. In terms of businesses, more banks, bookshops, ticketing agents and cinemas offered their services through on-line transactions.

### (d) Growth Prospects

20.57 The sub-sector is expected to register an average annual growth of 6.8 per cent during the period 2006-2010. Higher disposable incomes, rising urbanisation and changes in lifestyles among the population are expected to stimulate the growth in this sub-sector. Due to changes in demography, consumer behaviour and technology, the sub-sector is expected to undergo structural changes, which will have an impact on its future development, especially the traditional forms of businesses. The expected changes include:

- consolidation and integration of businesses to reap greater economies of scale;

- extension of linkages along the value chain; and

- promotion of new concepts in retailing and consumerism.

## SECTION V CONSTRUCTION SERVICES

20.58 There are two categories of construction services:

- general construction works, comprising building and civil engineering construction; and

- specialist trade or works, consisting of, among others, mechanical works, electrical and air-conditioning works, and other specialist trade or works, such as plumbing, sewerage and sanitary works; painting works; carpentry, tiling and flooring works; and glass works.

### (a) Present Status

20.59 The trend in the performance of the construction sub-sector in the last two decades was reflective of the country's economic conditions. The sub-sector registered rapid expansion when the economy was buoyant and a contraction when the economy underwent a slowdown. Prior to the financial crisis in 1997, the sub-sector was growing faster than the overall GDP growth, driven by strong demand for properties and substantial investments in public infrastructure. At its peak performance in 1997, the sub-sector registered value-added of RM9.5 billion, representing 4.8 per cent of the GDP. In 1998, following the financial crisis, the sub-sector contracted by 24 per cent. Subsequently, the sub-sector recorded a gradual recovery. Nevertheless, its contribution to the overall GDP decreased from 4.7 per cent in 1996 to 2.7 per cent in 2005.

20.60 An increasing number of Malaysian construction firms have undertaken construction activities in overseas markets, such as India, West Asia and South Africa. As at 2005, the Construction Industry Development Board (CIDB) had facilitated 76 Malaysian construction companies in undertaking a total of 316 projects, worth RM17.6 billion, in these overseas markets.

### (b) Industry Structure

#### *(i) Gross Output*

20.61 The gross output of the construction services was substantially contributed by a few large construction firms, with an output capacity of more than RM100 million each. In 2002, these firms numbered 44 and contributed 24 per cent of the total value of gross output. In comparison, 3,447 construction companies recorded output capacity of less than RM10 million each, and 837 companies, between RM10 million and RM100 million (Table 20.10).

TABLE 20.10

**PROFILE OF THE CONSTRUCTION SERVICES SUB-SECTOR, 2002**

| *Output Capacity (RM million)* | *Establishments* | | *Gross Output* | |
|---|---|---|---|---|
| | *Number* | *Share (%)* | *(RM billion)* | *Share (%)* |
| **Total** | **4,328** | **100.0** | **41.7** | **100.0** |
| Less than 10 | 3,447 | 79.6 | 10.4 | 24.9 |
| 10 – 100 | 837 | 19.3 | 21.3 | 51.1 |
| More than 100 | 44 | 1.1 | 10.0 | 24.0 |

*Note*: The survey covered only companies with value of work exceeding RM500,000
*Source*: Survey of Construction Industry 2002, Department of Statistics

20.62 Construction services are characterised by distinct market segments between the private and public sectors. Medium to high-cost residential housing and non-residential buildings are largely undertaken by the private sector. Low-cost housing, public amenities and infrastructure works are mainly undertaken by the Government. In 2002, of the total value of RM41.7 billion of construction works undertaken, 65.9 per cent were by the private sector. Civil engineering works recorded the highest contribution to gross output, at 38.4 per cent, followed by residential construction (23.7 per cent), non-residential construction (22.3 per cent) and special trades (15.6 per cent).

***(ii) Value-Added and Employment***

20.63 Value-added generated by the sub-sector grew steadily from RM4.4 billion in 1990 to RM14.8 billion in 2002. During the same period, salaries and wages increased from RM2.6 billion to RM9.1 billion, while the productivity of the sub-sector increased from RM14,361 to RM32,370 (Table 20.11). In 2005, the sub-sector employed a total of 759,600 persons, absorbing 7 per cent of the total workforce of the economy of 10.9 million.

TABLE 20.11

**PERFORMANCE OF THE CONSTRUCTION SERVICES SUB-SECTOR**

| *Year* | *Gross Output* | *Costs of Inputs* | *Value-Added* | *Employment* | *Productivity* | *Salaries and Wages* |
|---|---|---|---|---|---|---|
| | *(RM billion)* | | | *(Persons)* | *(RM)* | *(RM billion)* |
| 1990 | 11.9 | 7.6 | 4.4 | 305,547 | 14,361 | 2.6 |
| 1996 | 44.6 | 27.5 | 17.2 | 627,369 | 27,381 | 10.1 |
| 2002 | 41.7 | 27.0 | 14.8 | 455,663 | 32,370 | 9.1 |

*Source*: Survey of Construction Industry 2002, Department of Statistics

## (c) Growth Prospects

20.64 Greater liberalisation of international trade will result in increased competition between domestic and foreign firms in Malaysia's construction sub-sector. The smaller general contractors are expected to merge into larger entities, with improved managerial and technical capabilities, to compete internationally. The Government has introduced a number of measures to encourage cooperation among construction service providers in bidding for projects in emerging markets, such as India, the People's Republic of China and West Asia. The measures include encouraging:

- mergers of smaller construction firms to increase their tendering capacity; and

- construction service providers to shift to cluster-based bidding strategy, which encompasses related services, such as architectural, engineering and financial, in bidding for larger projects.

## SECTION VI EDUCATION AND TRAINING SERVICES

20.65 The education and training services sub-sector is an important supplier of qualified and trained workforce for industries and services. The sub-sector covers private higher education (college and university education, and commercial and other technical education) and adult and other vocational education (post-secondary non-tertiary education, tertiary education and skills training). The provision of education services has been traditionally undertaken by the Government. With liberalisation of the sub-sector in the mid-1990's, there is an increasing number of private higher learning and training institutions. Public funded institutions for education and training services include universities, teacher training colleges, polytechnics and colleges, and vocational institutions, while the private sector is involved in universities and colleges, and commercial and other technical institutions.

### (a) Present Status

20.66 During the period 2003-2005, a total of 287 private educational establishments were approved by the Ministry of Higher Education, involving total investments of RM273 million. These establishments were largely Malaysian-owned (89.4 per cent), with an employment potential of 2,395 persons. The sub-sector is undergoing developments, involving several modes of trade:

- cross border trade (Mode 1) is growing in importance, as foreign institutions operate through e-learning to attract international students;

- investments or commercial presence (Mode 3), in the form of franchised programmes, for example, the setting up of branch campuses by foreign universities, as a form of business collaboration, is also a significant development; and

- on movement of natural persons (Mode 4), there is an increasing trend on the employment of foreign experts and professionals as lecturers, resource persons, trainers and speakers for conferences, workshops and seminars, on a short term or long term basis.

20.67 A survey, conducted in early 2005, revealed that:

- the most common types of education and training services in demand were short courses to enhance knowledge and upgrade skills on new technologies, methods, processes and technical standards, as well as updates on Government policies and local regulations;

- the main reasons for obtaining education and training services were to acquire specialised knowledge and have access to technology, as well as save cost through outsourcing of the education and training requirement;
- users preferred education and training service providers which possessed specialised knowledge, were strong in scientific or technical expertise and were capable of supplying high quality services at competitive prices; and
- revenues of the majority of the providers of education and training services were mainly from domestic sources. Training on business and management skills contributed the largest proportion of the revenues.





**(b) Industry Structure**

20.68 The liberalisation in the provision of education has facilitated private sector participation in education and training services. During the 1990's, local private universities and branch campuses of foreign universities and private colleges were established, with the latter conducting all modules of foreign degree programmes locally. A number of the providers of education and training services have gained international recognition. As at December 2005, three colleges have become public listed companies and been recognised as international education providers. Some of the internal courses of the private higher education institutions have also been accredited by internationally renowned universities.

***(i) Private Education Institutions***

20.69 Presently, there are 16 private universities, of which 11 are Malaysian-owned and five, branch campuses of foreign universities. In addition, there are 11 university colleges operating in the country. These institutions award bachelor degrees and higher qualifications, mainly in business, applied sciences, IT, engineering and medical disciplines. The presence of branch campuses of foreign universities from Australia and the United Kingdom (UK) provides additional choices in education and training for Malaysians. These establishments also contribute in enhancing private education services by attracting international students, who wish to pursue qualifications from prestigious universities of developed countries, to study in Malaysia. With internationally recognised qualifications, as well as relatively lower fees, education in these institutions is attractive and accessible to both Malaysian and international students.

20.70 Main features of private non-university status colleges and institutions are:

- growth in their number, from 354 in 1996 to a peak of 632 in 2000. They consolidated to 532 in 2005. These institutions vary, in terms of capacities, and facilities and programmes offered;
- some of them provide diploma and certificate courses for professional qualifications and franchised degree programmes of foreign universities.

They also conduct examinations, on behalf of professional bodies in Malaysia, such as Malaysian Institute of Accountancy, Institution of Engineers Malaysia, Institute of Bankers Malaysia and *Majlis Latihan Vokasional Kebangsaan* (MLVK); and

- presently, there are 26 private colleges which have been accredited by universities from the UK, Australia and France to conduct full degree programmes in Malaysia.

20.71 Enrolment in private higher education institutions increased from 50,840 students in 1995 to 341,310 in 2005. Of this, 38.5 per cent were in diploma courses, 32.4 per cent, in degree courses and 27.8 per cent, in certificate courses. In 2005, a total of 41,312 foreign students were enrolled in higher education institutions. The majority of the foreign students were from East Asia and the Pacific, followed by ASEAN, West Asia and Africa. In terms of the fields of studies, they were mainly in business and administration, arts, design and music.

***(ii) Technical Education and Vocational Training***

20.72 There are numerous private technical education and vocational training providers. These providers assume an important role in providing affordable courses to meet the demand in niche areas. The number of private technical education and vocational training providers accredited by MLVK increased from 316 in 2000 to 1,330 in 2005. The output of these training institutions increased from 8,302 students in 1995 to 33,111 in 2005.

***(iii) Commercial and Professional Education***

20.73 Specialised industrial, commercial and professional training and continuous professional education are provided by various professional bodies, trade associations and training organisations. These organisations focus on education and training in specialised skills and competencies, required by the profession or trade. They include the Federation of Malaysian Manufacturers Institute of Manufacturing, Malaysian Institute of Certified Public Accountants, Institution of Engineers Malaysia, Institute of Architects Malaysia and Malaysian Institute of Management.

**(c) Growth Prospects**

20.74 Major factors which will drive the future demand for education and training services include:

- **Demographic trends**

  Assuming a growth rate of population of 1.6 per cent per annum, it is estimated that the number of Malaysians of tertiary going age (17-23) will be 4 million by 2010 and 4.3 million by 2020;

- **Demand for education and training**

  Factors which will influence the demand for education and training services include the growth in personal incomes, increased awareness of lifelong learning to sustain employability and the demand for internationally recognised qualifications; and

- **New forms of learning**

  With the introduction of new forms of learning, such as e-learning, greater internet usage and adoption of e-commerce and its outsourcing options, the demand for the new forms of learning will increase the need for education and training services.

20.75 Advantages which Malaysia offers in the efforts to make the country a centre of excellence for education and training, and meet the increasing demand for education and training services by foreign students, include:

- competitive cost of education;
- urban living environment, which meets high living standards for foreign students;
- social-cultural advantage - being a multi-ethnic and multi-religious society, Malaysia appeals to countries which have similar social and religious characteristics (such as Indonesia, the People's Republic of China and West Asia); and
- political and economic stability.

## SECTION VII HEALTH SERVICES

20.76 Health services cover the provision of healthcare services (such as hospital services and medical and dental services), social work services (for example, nursing homes), human health activities and veterinary services. The value chain of the health services sub-sector includes the manufacture, provision and distribution of pharmaceutical products, medical equipment and devices, health insurance, R&D, and education and training of medical personnel.

### (a) Present Status

20.77 According to a study conducted in 2003 by the National Economic Action Council, the value-added of health services amounted to RM2.5 billion in 2000, constituting 1.2 per cent of the GDP. Public healthcare accounted for 60 per cent of the value-added and private healthcare, 40 per cent. During the period 1990-2000, private healthcare services grew at an average annual rate of 8 per cent, higher than the growth of public healthcare services, at 5.4 per cent. This was due to the liberalisation of the Government policy on healthcare services and a greater demand for such services by the higher income group. In 1999, gross output in current prices of the private healthcare services (excluding allied health and nursing care, and social work services) was estimated at RM2.9 billion. This was largely contributed by private hospitals, including maternity homes, at 52.7 per cent, followed by medical services (41.7 per cent), dental services (5.2 per cent) and veterinary services (0.5 per cent).

### (b) Industry Structure

20.78 Main features of the private healthcare services include:

- medical services constituted the bulk (2,688 establishments or 71.4 per cent) of the total number of establishments of 3,763, followed by dental services (20.5 per cent), hospitals (6 per cent) and veterinary services (2.1 per cent) (Table 20.12);

- there are two large private healthcare service providers. Together, they account for 24 per cent of the total number of beds in private hospitals. There are also six medium-sized private hospitals, with an average number of 286 beds per hospital, and 15 other smaller private hospitals, with less than 200 beds each;

- the private hospitals were concentrated in urban areas, in particular, Selangor and Federal Territory. In 2004, of the total private hospital beds in Malaysia, 44.9 per cent were in Selangor and Federal Territory, followed by Pulau Pinang (18.5 per cent), Johor (7.6 per cent), Perak (7.4 per cent) and Melaka (7.2 per cent). This indicated that private hospitals catered for the needs of the higher income group of the urban population, including expatriates; and

- medical services accounted for 48.8 per cent of the total employment, followed by hospitals (43.1 per cent).

Table 20.12

**PROFILE OF THE PRIVATE HEALTHCARE SERVICES, 2001**

| | *Number of Establishments* | *Share (%)* | *Number of Workers* | *Share (%)* |
|---|---|---|---|---|
| **Total** | **3,763** | **100.0** | **43,437** | **100.0** |
| Medical services | 2,688 | 71.4 | 21,223 | 48.8 |
| Hospitals | 224 | 6.0 | 18,709 | 43.1 |
| Dental services | 773 | 20.5 | 3,281 | 7.6 |
| Veterinary services | 78 | 2.1 | 224 | 0.5 |

*Source*: National Economic Action Council Report, 2003

20.79 While private hospitals comprised 62 per cent of the total number of hospitals, they accounted for only 22 per cent of the number of beds, reflecting their smaller size, compared with Government hospitals. However, private hospitals had a higher ratio of doctors to beds (10:19), compared with Government hospitals (10:40) (Table 20.13). During the period 2003 - 2005, a total of 25 private hospitals were approved by the Ministry of Health, involving total investments of RM89 million. All the establishments are wholly Malaysian-owned, with a potential employment of 745 persons.

TABLE 20.13

**KEY INDICATORS OF THE HEALTHCARE SUB-SECTOR, 2004**

| | *Public* | *Private* | *Total* |
|---|---|---|---|
| No. of hospitals | 131 | 218 | 349 |
| No. of beds | 37,280 | 10,542 | 47,822 |
| Doctors | 9,410 | 8,836 | 18,246 |
| Doctors - beds ratio | 10:40 | 10:19 | 10:26 |
| Beds - population ratio | 1:686 | 1:2,427 | 1:535 |
| Dentists | 1,111 | 1,439 | 2,550 |
| Nurses | 30,002 | 10,218 | 40,220 |

*Source*: Health Facts 2004, Ministry of Health

20.80 In comparison with selected countries, health services in Malaysia have yet to realise their full potential. This is reflected in terms of the lower contribution of healthcare expenditures to the GDP and the lower ratio of physicians per 100,000 population (Table 20.14).

TABLE 20.14

**COMPARISON OF HEALTH SERVICES IN SELECTED COUNTRIES**

| *Indicator* | *Malaysia* | *Singapore* | *Rep. of Korea* | *Thailand* | *USA* | *UK* |
|---|---|---|---|---|---|---|
| Gross national income per capita, 2003 (US$) | 3,880 | 21,230 | 12,030 | 2,190 | 37,870 | 28,320 |
| Health expenditures, 2002 (% of GDP) | 3.8 | 4.3 | 5.0 | 4.4 | 14.6 | 7.7 |
| Population, 2003 (million) | 24.8 | 4.3 | 47.9 | 62.0 | 290.8 | 59.3 |
| Physicians, 2003 (per 100,000) | 68.0 | 140.0 | 180.0 | 30.0 | 279.0 | 164.0 |
| Life expectancy at birth, 2003 (years) | 72.0 | 80.0 | 76.0 | 70.0 | 77.0 | 79.0 |
| Infant mortality rate, 2001 (per 1,000 live births) | 8.0 | 5.0 | 3.0 | 27.0 | 7.0 | 6.0 |

*Sources*: World Bank 2004, World Health Report 2005 and Human Development Report 2004

**(c) Growth Prospects**

20.81 The cost of healthcare in Malaysia is relatively lower, compared with many developed countries. With the formulation of appropriate policies and promotion, Malaysia has the potential to attract patients from high cost countries, as well as countries where the required healthcare facilities are lacking. Other major factors which will drive the future demand for healthcare services include:

- rising national income levels, which will allow for greater expenditures on the development of healthcare services;
- rising income levels, which will influence the demand for private and public healthcare services, including more sophisticated healthcare services and elective treatment;
- a more educated population, which will increase the consumer awareness on healthcare services and the demand for healthcare professionals;
- the availability and greater adoption of health insurance scheme, which will change the mode of payment and relieve part of the burden on public healthcare financing; and
- increasing demand for healthcare services by foreigners, as a result of the promotion on health tourism.

20.82 Healthcare service providers are increasingly utilising technology-based management systems and operations. Areas of such applications include:

- up-to-date IT services, which enable the outsourcing of IT support, covering activities such as help desk, network management and record keeping on patients;
- developing more outpatient services, such as home healthcare and ambulatory surgery centres, and clinics. These new services will be computerised for greater efficiency; and
- focus on specialised medical treatment through telemedicine, which offers new ways for physicians to exchange information, as well as provides remote monitoring of healthcare.

## SECTION VIII TOURISM SERVICES

20.83 Tourism services comprise hotels, resorts, lodgings, tour services, travel agencies, restaurant and catering services, and transport companies. The scope of tourism services has progressed from supplying services on mass products and markets to more innovative tourism packages. These include eco-tourism, agro-tourism, edu-tourism, health tourism, sports tourism and event organisation (meetings, incentives, conferences and exhibitions). Further growth is expected in these new niche markets, which include long and medium haul markets.

**(a) Present Status**

20.84 The tourism services sub-sector is a significant contributor to Malaysia's foreign exchange earnings. The sub-sector is the second largest source of foreign exchange earnings, after the manufacturing sector. For the period 1996-2005, the total tourist receipts increased by an average annual growth of 12.9 per cent, from RM11.3 billion in 1996 to RM32 billion in 2005. Per capita tourist expenditures expanded at an average rate of 4.4 per cent, from RM1,444 in 1996 to RM1,890 in 2005. The main components of the tourist expenditures were accommodation, shopping, and food and beverages.

20.85 During the period, the number of tourist arrivals increased from 7.1 million to 16.4 million, registering an average annual growth of 8.1 per cent. ASEAN continued to account for more than 70 per cent of the total tourist arrivals. Within ASEAN, Singapore and Thailand accounted for more than 60 per cent of the tourist arrivals. Tourist arrivals from West Asia increased from 31,371 in 1996 to 164,000 in 2005. The average length of stay of tourists increased from 5.4 nights in 1996 to 7.2 nights in 2005.

20.86 The sub-sector is also a major contributor to employment, providing 451,000 employment opportunities in 2005. The major source of employment was in the hotels and other lodging services, with employment steadily increasing by more than two-fold, from 39,000 persons in 1995 to 91,156 in 2005. It is projected that by 2010, a total of 520,700 direct employment opportunities will be created in the sub-sector.

**(b) Industry Structure**

***(i) Hotels and Lodgings***

20.87 In 2005, there were 2,256 hotels and other lodging places. Within the hotel segment, 4 and 5-star hotels accounted for 19 per cent of the total number of hotels, while 2-star and 3-star hotels comprised 36 per cent. The total number of hotel rooms grew from 94,744 in 1995 to 170,873 in 2005 and is projected to further increase to 247,008 by 2010. Of the hotels rated by the Ministry of Tourism, Kuala Lumpur has the highest proportion of luxury hotels, followed by Penang and Selangor. Sarawak has the highest number of budget hotels, followed by Sabah and Kuala Lumpur. For the period 2003-2005, a total of 85 hotels and tourism projects were approved by the Ministry of Tourism, involving total investments of RM4.9 billion, of which 36.7 per cent were from foreign sources. These projects are expected to provide potential direct employment for 7,296 persons.

20.88 During the IMP2 period, a total of 360 hotel projects were granted tax incentives, of which 309 projects involved the establishment of new hotels and 51 projects were expansion, refurbishment or modernisation of existing hotels. During the period, a total of 30 tourist projects, including both indoor and outdoor theme parks and safaris, were granted tax incentives. As a measure to encourage more domestic tourism, a total of 180 budget hotels (those rated 3-star and below) were granted tax incentives. Of the total investments of RM20.9 billion, RM18.4 billion, or 80 per cent, were for the establishment of new hotels.

***(ii) Specialised Tourism Products and Services***



20.89 Specialised tourism projects cover indoor and outdoor theme parks, safaris, agricultural parks and recreational camps. As at 2004, there were 19 specialised tourism projects in strategic locations, such as Genting Highlands, Fraser's Hill, Cameron Highlands and national parks. In addition, there are service providers in the tourism related services segment, for example, convention and exhibition centres, which is an important source of growth for the sub-sector, due to its capacity to attract high spending business travellers. In 2005, a total of 3,230 international conventions were organised in Malaysia, with foreign delegate arrivals of 775,286, an increase of 63.7 per cent from 473,486 arrivals in 2001. These international events generated about RM3 billion of tourist receipts from foreign business travellers in 2005.



20.90 To enhance the appeal of Malaysia as a tourist destination, efforts were continued to leverage upon the country's traditional advantages by promoting the country's cultural and natural heritage. Among specialised tourism products and services promoted included:

- meetings, incentives, conferences and exhibitions tourism;
- sports and recreational tourism;
- thematic events;
- eco-tourism;
- health tourism;
- education tourism; and
- agro-tourism.

***(iii) Travel Agencies and Tour Operators***

20.91 In tandem with the growth in hotels and other lodging places, the number of travel and tour establishments had increased from 744 in 1990 to 2,383 in 2005. There are also 6,000 registered tour guides in Malaysia. In 2005, a total of 20,610 licences were issued to tour coach and car rental operators.

### (c) Growth Prospects

20.92 The future direction and prospects of the sub-sector largely depend upon the continued attractiveness of Malaysia as tourist and business destinations and the effectiveness of the various initiatives and programmes in promoting tourism. Tourist arrivals in Malaysia are expected to reach 24.6 million by 2020, while tourist receipts are expected to reach RM59.4 billion.

#### *(i) International Tourism*

20.93 According to the World Tourism Organisation, international arrivals worldwide are expected to reach 1 billion by 2010. International trade in tourism services largely takes place among developed countries, and is mainly intra-regional in nature. Geographical proximity to target markets is one of the most important factors in the export of tourism services. Nevertheless, the cheaper cost of air travel (for example, through chartered flights and low cost carriers), especially to and from long-haul markets, has facilitated the development of new markets away from developed countries. Therefore, air access becomes an important driving force behind the development of international tourism.

20.94 Tour packages catering for specific niche markets have become increasingly important options, because such packages encourage the flow of high value tourists. Therefore, innovative tourism product packages, such as eco-tourism; health tourism; edu-tourism; agro-tourism; and meetings, incentives, conferences and exhibitions tourism; will become increasingly important to increase the number of inbound tourists and their length of stay, as well as tourist receipts. This will necessitate further investments in both luxury and budget hotels, and lodging places to promote these packages. The provision of such hotels and lodging places will also encourage travel agencies, tour operators and airline companies to develop and provide these packages.

#### *(ii) Domestic Tourism*

20.95 Domestic tourism will continue to be an important component of the country's tourism services sub-sector, to complement the growth of inbound tourists. The number of domestic tourism trips increased by 30.1 per cent, from 12.3 million in 2000 to 16 million in 2005. Similarly, domestic hotel guests more than doubled, from 13.6 million to 29 million. The introduction of low cost carrier was a major factor in the growth of domestic tourism. In addition, the implementation of the five-day work week contributed to the increase of domestic tourists. Emphasis will continue to be given to the promotion of domestic tourism, including enhancing existing facilities, making promotional materials readily available to domestic tourists and promoting tourism as a regular activity.

## SECTION IX INSTITUTIONAL SUPPORT

### (a) Ministry of International Trade and Industry and its Agencies

20.96 Beginning 2004, the Ministry of International Trade and Industry (MITI) and its agencies, namely, Malaysian Industrial Development Authority (MIDA), Malaysia External Trade Development Corporation (MATRADE), Small and Medium Industries Development Corporation (SMIDEC) and National Productivity Corporation (NPC), have been given the responsibility to promote investments and exports of services, in coordination with other relevant ministries and agencies, trade organisations and industry associations.



#### *(i) Malaysian Industrial Development Authority*

20.97 MIDA has been given the task to become the single window for the promotion of investments and facilitation of the development of selected services sub-sectors in Malaysia. Major aspects of MIDA's responsibilities include:

- being the first point of contact for investors for information on the services sector in Malaysia;
- identifying and promoting specific services activities;
- evaluating applications for tax incentives for the promoted services activities;
- making available relevant guidebooks for selected services activities;
- coordinating the promotion of identified activities, and providing assistance to investors in the implementation of their projects;
- collating statistics on investments in the services sector; and
- recommending policies and incentives for the identified services activities.

20.98 In line with the Government's decision that MITI coordinates the work with other relevant ministries and agencies to report on statistics on investments for all economic sectors, MIDA has been given the task to develop a comprehensive database on investments in all sectors, including the services sector. MIDA, in cooperation with 18 ministries and 24 agencies, had compiled statistics on private investments approved in new and existing establishments in all sectors of the economy for 2003 to 2005. To promote investments in the identified services activities and disseminate up-to-date information to the business community, MIDA had published two guidebooks, namely, Guidebook on Key Services Supporting the Manufacturing Sector and Guidebook on Business and Professional Services, in 2005 and 2006, respectively. These guidebooks contain relevant information, in terms of present policies, procedures, incentives and facilities for the identified services activities and contact points of the relevant Government ministries and agencies involved.

### *(ii) Malaysia External Trade Development Corporation*

20.99 MATRADE, in consultation with National Professional Services Export Council (NAPSEC) and other relevant agencies and professional bodies, promotes the export of services, such as:

- construction and related services, including engineering and architecture;
- healthcare services;
- IT services, including software development;
- telecommunications;
- franchising services;
- oil and gas services;
- environmental services;
- port management; and
- power generation.

20.100 MATRADE facilitates the expansion of exports of services, including professional services, through measures such as:

- developing export strategies and implementing promotion programmes, such as participation in relevant international trade fairs, specialised marketing missions, and trade and investment missions;
- administering the Export Services Fund to support Malaysian professional service providers in their export efforts;
- establishing business linkages, and monitoring and disseminating market intelligence and information among its network of offices overseas;
- compiling database and directories on export-ready Malaysian professional service providers; and
- facilitating exports through developing database on market access issues and regulations affecting the export of professional services, and mutual recognition agreements (MRAs).

### *(iii) Small and Medium Industries Development Corporation*

20.101 SMIDEC has expanded its scope and financial assistance programmes to include the services sector. The extension of the assistance programmes to SMEs in the sector is for capacity building, especially in the areas of training and skills development, adoption of ICT and human resource development (HRD). Through the Grant for Enhancing Marketing Skills, SMEs in the sector are encouraged to train their employees in marketing skills through short-term courses in areas such as marketing strategies and planning, pricing, distribution, branding, merchandising and customer services. To encourage companies to adopt ICT, the Soft Loan Scheme for ICT Adoption has been expanded to cover the purchase of softwares and hardware related to the services sector:

- enterprise resource planning;
- tracking system for the haulage industry;
- automated store management system and inventory management system in warehousing and forwarding;
- point of sales and customer relations management for the distributive trade; and
- computer hardware and other peripherals.

20.102 In respect of HRD, companies in the sector are assisted to:

- undertake courses for certification in skills required by the industry;
- train existing trainers attached with regulatory bodies at international institutions on new courses required by the services-related associations; and
- undertake compulsory examinations, for example, examination by the Customs Department for freight forwarders.

***(iv) National Productivity Corporation***

20.103 NPC undertakes programmes towards enhancing the productivity of the services sector through a number of initiatives on total factor productivity (TFP). Among the programmes are:

- undertaking research activities on the present level of productivity, quality and competitiveness of selected services sub-sectors to provide information and data for policy planning and formulation towards higher productivity and quality;
- enhancing the development of human resources and organisational competitiveness through training and systems development in quality systems, productivity and quality management and performance measurement systems; and
- nurturing productivity and quality culture to enhance creativity and innovation, and promoting the sharing of information on organisational excellence and best practices.

### (b) Institutional Support for the Sub-Sectors

#### *(i) Business and Professional Services*

20.104 Presently, business services and non-accredited professional services are subject to minimum Government regulations. The sub-sector is open to both local and foreign interests, except where they relate to public health, safety and morals. In respect of accredited professional services, they are governed by 22 professional bodies, which include:

- Malaysia Institute of Accountants, a statutory body under the Ministry of Finance, which imposes mandatory membership on all certified public accountants. It controls and monitors the registration and development of the profession;

- Bar Council, a statutory body which implements and monitors the policy set by the Government on legal services. Each advocate and solicitor, who holds a valid Practising Certificate, is automatically a member of the Bar Council;

- Board of Engineers, a statutory body under the Ministry of Works, which registers and licenses the engineering profession. The private sector, led by the Institute of Engineers and Association of Consulting Engineers Malaysia, monitors the engineering practices of their members; and

- Board of Architects, a statutory body under the Ministry of Works, which registers and licenses architects. All Malaysian architects need to register with the board to practise.

20.105 To assist in the promotion of the export of the professional services, the Government has established NAPSEC and the Professional Services Development Corporation (PSDC). NAPSEC contributes in the formulation and review of national export strategies and promotion programmes, while the PSDC assists in the capacity and capability building of Malaysian professional service providers.

#### *(ii) Distributive Trade Services*

20.106 Local companies undertaking distributive trade activities, except hypermarkets, do not require approval from the Ministry of Domestic Trade and Consumer Affairs. However, all proposals involving foreign participation require licensing by the ministry, under the Guidelines on Foreign Participation in the Distributive Trade Services. The guidelines stipulate that foreign investors intending to set up hypermarkets, superstores, departmental stores, speciality stores and other distributive trade, including expansion, will need to comply with the minimum capital investment requirement of between RM1 million to RM50 million, with minimum Bumiputera equity of 30 per cent.

20.107 Franchise businesses are governed by the Franchise Act, 1998. A franchisor will need to register its franchise with the Registrar of Franchises under the Ministry of Entrepreneur and Cooperative Development. Foreign investors, intending to set up franchise businesses, are allowed to hold up to a maximum of 70 per cent of the equity, with the balance of 30 per cent to be allocated to Bumiputera interests.

20.108 Direct selling businesses, which cover multi-level, single-level and mail order businesses, are governed by the Direct Selling Act, 1993 under the Ministry of Domestic Trade and Consumer Affairs. Intending operators are subject to a minimum capital requirement and equity conditions.



### *(iii) Construction Services*

20.109 The Ministry of Works is responsible for the development of projects in the public sector, including the privatisation of road and highway construction and maintenance. The ministry also assists Bumiputera entrepreneurs and is involved in the upgrading of the skills of workers in the construction sub-sector.



20.110 CIDB, a statutory body under the ministry, is responsible for promoting the development and expansion of the construction services sub-sector. Apart from its advisory functions, CIDB is also responsible for promoting the export of construction services, encouraging the standardisation and improvement of construction techniques and materials, promoting quality assurance and coordinating the training needs of the sub-sector. CIDB, with the collaboration of the industry stakeholders, has formulated the Construction Industry Master Plan, 2006-2015, which will position the industry to be more resilient and robust to face future challenges, both in the domestic and foreign markets.

20.111 The CIDB Act, 1994 requires persons or companies, intending to undertake any construction activities, to register with CIDB. In addition, contractors who wish to undertake construction work in the public sector, need to register with *Pusat Khidmat Kontraktor* under the Ministry of Entrepreneur and Cooperative Development. Enforcement of laws related to safety, standards and environment falls within different jurisdictions and authorities. The responsibility of ensuring that construction projects do not adversely affect local surrounding areas and the environment rests with the respective local authorities. Compliance with health and safety rules at the workplace is under the jurisdiction of the Ministry of Human Resources, while compliance with structural and building standards is under the jurisdiction of the Ministry of Works.

### *(iv) Education and Training Services*

20.112 The Ministry of Higher Education was established in March 2004, with the responsibility of planning on the development and formulation of policies and programmes on higher education in both the public and private sectors. Institutions involved in higher education, such as universities, polytechnics and community colleges, as well as the National Accreditation Board (LAN) and the National Higher Education Fund Corporation, are regulated by the ministry. In 2003, the Private Higher Educational Institutions Act, 1996 was amended to provide for the establishment and upgrading of private universities, university colleges and branch campuses of foreign universities. Under the Act:

- the establishment and operation of private higher educational institutions require the approval of the Ministry of Higher Education;
- the type of courses to be offered will be approved by LAN, before the issuance of registration by the ministry; and
- private higher education institutions of international status are allowed to hold up to 49 per cent foreign equity, while 51 per cent are to be allocated to Malaysian interests, including 30 per cent to Bumiputera interests.

20.113 In December 2005, the Malaysian Qualification Framework was developed to provide a platform for quality assessment in higher education and a reference point for standards in programmes and qualifications. In respect of incentives, presently, companies providing industrial technical and vocational training are eligible for Investment Tax Allowance of 100 per cent for 10 years. This allowance can be offset against 70 per cent of the statutory income for each year of assessment.

### *(v) Health Services*

20.114 Private hospitals, including nursing homes and maternity homes, are under the purview of the Ministry of Health. These private health institutions are governed by the Private Hospital Act, 1971. Applications to establish private hospitals are processed by the Department of Health of the respective states. They are also required to comply with the Private Hospital Regulations, 1973 in undertaking their activities. Foreign participation is allowed, subject to present equity guidelines.

### *(vi) Tourism Services*

20.115 The Ministry of Tourism regulates the overall development of the tourism and tourism related services sub-sector, through the Tourism Industry Act, 1992, Malaysia Tourism Promotion Board Act, 1992, and related rules and regulations. In addition, tourism services in Sabah and Sarawak are regulated by the Sabah Tourism Corporation Enactment, 1981, and Sarawak Tourism Board Ordinance, 1994. Tourism service providers, such as hotel owners and operators, restaurants, travel agencies, tour operators and tour guides services, are governed by these acts and regulations. Generally, there are no restrictions on inbound travellers, coming as tourists and business persons to the country.

20.116 For the establishment of specialised tourism projects and the expansion of 4-star to 5-star hotels, 100 per cent foreign equity is allowed for the first five years. From the sixth year of operation, foreign equity allowable will be 51 per cent, while Bumiputera equity of 30 per cent will be required. Specialised tourism projects granted incentives are required to incur capital expenditures of at least RM10 million. Companies granted incentives to establish 1-star to 3-star hotels are required to have at least 70 per cent equity being held by Malaysians, including 30 per cent by Bumiputera interests.



## SECTION X CHALLENGES

### GENERAL CHALLENGES

#### (a) Outsourcing

20.117 Global developments point towards convergence between manufacturing and services. Services are increasingly being embodied in manufactured goods. Developments in ICT have contributed to the restructuring of both the manufacturing and services industries.

20.118 Companies have, over the years, increased their reliance on specialised externally supplied expertise for a wide range of services, such as legal, accounting, computing, human resource management, maintenance, advertising and marketing. Firms resort to outsourcing to:

- focus on their core competencies;
- reduce costs;
- exploit economies of using specialised external expertise; and
- improve performance through access to a wider range of knowledge-based skills and technologies, better management and work practices and better use of capital.

The Malaysian services sector will need to enhance its level of competitiveness to benefit from these outsourcing opportunities and be able to compete with foreign service providers.

#### (b) Coordinated Development and Promotion

20.119 A more coordinated development and promotional approach will be required to support the further development of the services sector as a major source of growth. Coordination will need to involve the relevant ministries and agencies responsible for the developmental, promotional and regulatory aspects of the services sub-sectors.

**(c) Competitiveness through Progressive Liberalisation**

20.120 Generally, Malaysian-owned service providers are less competitive, compared with international companies or MNCs. Areas which require further improvements include knowledge and skills upgrading, enhancement in the application of ICT and other technologies and capacity building to respond to new market requirements. Although Malaysia has maintained its position as the third most attractive business location for offshoring activities in 2004 and 2005, in the short and medium terms, there will be stronger competition from other lower cost countries. As Malaysia moves towards providing high value-added services, greater competition is also expected from other developed countries. In view of the extensive linkages of the services sector to the rest of the economy and its potential contribution to growth, the pace of development of the sector needs to be accelerated and its competitiveness enhanced. This can be achieved through progressive liberalisation.

**(d) Opening Up of Market**

20.121 Presently, negotiations on market opening of the services sector are being undertaken under the GATS, AFAS and FTAs. Further liberalisation of the sector will need to take into account the following considerations:

- Malaysia's commitments under AFAS. Roadmaps with specific schedules of liberalisation commitments, involving all sub-sectors and modes of supply, need to be developed to achieve the objective of the free flow of services within the ASEAN region by 2015;

- domestic firms need to seek new markets and new foreign alliances or adopt market entry strategies in a deliberate and proactive manner, while raising their competitiveness in various ways; and

- financial support provided to foreign service providers from their home countries may affect the competitive position of domestic firms, when tendering for domestic projects. Such financial assistance include low cost funds, R&D grants and loans, and administrative support.

While trade liberalisation can encourage Malaysian firms to be efficient and competitive, progressive and selective liberalisation, with conditionalities, may be necessary to enable Malaysian firms to build their capacities, competencies and capabilities to be able to compete with foreign firms.

### (e) Business Opportunities through Mutual Recognition Arrangements

20.122 Efforts on MRAs will need to be intensified, on a bilateral and regional basis, to facilitate local service providers in establishing offshore operations in areas such as business and professional services, construction and tourism services. The MRAs will enable and facilitate the movement of Malaysian professionals, skilled labour and talents into ASEAN and other countries.

### (f) Effective Private Sector Institutional Support

20.123 Although there are more than 50 associations and professional bodies representing the services sector, generally, they lack resources to support the future development of the sector and are unable to form an effective representation of their interests to the Government and in international negotiations. For the sector to assume a bigger role in economic development, there is a need for an umbrella body to represent the interests of the sector effectively. In developed countries, services industry operators, including professional bodies, have established an organisation, called Coalition of Services Industries, to represent their interests to their governments.

### (g) Data Limitations

20.124 There is a need for current and relevant data on services, required for planning, to be collated. The non-availability of such data is largely due to the following factors:

- the sector being defined in varying contexts, such as commodity, product or output;
- only selected major services are surveyed regularly by the Department of Statistics, and the data collected are not readily available, except on request;
- different approaches used in the industry and output coverage of the National Accounts, including the BOP, have made comparison and analysis difficult;
- the sectoral or product breakdown in the Central Product Classification, used in international negotiations, is more detailed, in comparison with the classification presently used in the statistics on the BOP, approvals on FDIs and surveys on production indices. As a result, the statistics on the services trade are under-estimated, because of the lack of data, with respect to the four modes of the supply of services; and
- available statistics on the six sub-sectors of services, including ‘Other Services’, are too broad-based.

20.125 Presently, planners, policy formulators and implementors are constrained by problems relating to definitions, methodology, comparability and consistency of information and data. Accurate, consistent and comprehensive data on the sector are important in the formulation and implementation of strategies and policies for the further development of the sector.

## SPECIFIC CHALLENGES FOR THE SUB-SECTORS

### (a) Business and Professional Services

#### *(i) Exports and Outward Investments*

20.126 The business and professional services sub-sector, which includes accredited and non-accredited professional services, is diverse, with varying capacities and capabilities. A large number of the accredited professional services have been content with relying on the domestic market. For example, ownership in some accredited professional services is exclusively local, and firms rarely venture abroad. In view of the limited domestic market, Malaysian firms will need to expand their operations abroad to sustain their growth and development. An avenue for Malaysian service providers to obtain information on business opportunities worldwide is by registering with international organisations. Such information will assist the providers in assessing their capabilities and improving their competitiveness in entering international bids. Presently, there is a lack of interest among Malaysian service providers to register with international organisations.

20.127 Globalisation and liberalisation, through bilateral and multilateral trade agreements, pose a challenge, as well as create opportunities, to Malaysian business and professional services providers. Business and professional services which are considered export-ready, need to be encouraged to export their services or undertake outward investments, through joint ventures or strategic alliances. To increase their presence in the regional and global marketplace, they also need to consider consolidations, through mergers and acquisitions (M&As).

#### *(ii) International Certification and Accreditation*

20.128 International standards and certifications are important to facilitate the professional service providers in gaining international recognition and exporting their services. Malaysian professional service providers will need to acquire such standards and certifications.

### (b) Distributive Trade

#### *(i) Competition with Foreign Distributors*

20.129 The present guidelines on foreign participation in the distributive trade services are intended to safeguard the interest of small and medium local distributors, especially retailers, who are unable to compete with large firms. A study conducted in 2004 to assess the impact of foreign hypermarkets indicated that small retailers, with limited resources, were at a disadvantage, as they were unable to compete on price, quality or product assortment, which were important factors to consumers in their store patronage decision. Therefore, the major challenge for small retailers is to restructure and be innovative in their business approach. There is a need to promote the growth of local service providers in the distributive trade, for example, through partnerships and strategic collaborations, which will facilitate the entry of the local service providers into foreign markets. There is also a need for initiatives to enable smaller retailers to co-exist with the larger establishments.



#### *(ii) Changing Pattern of the Distributive Trade*

20.130 In view of the changing structures of the distributive trade services sub-sector, efforts are required to assist the local distributors to adjust to the changes. Data compilation and research on various aspects of the distributive trade are necessary for the continued development of the sub-sector. There is a need to foster closer linkages with manufacturing and other economic activities.



#### *(iii) Linkages with Global Supply Chains*

20.131 The globalisation of trade and investment activities has led to the establishment of manufacturing systems, where sections of production activities along the value chain are located in different countries. To benefit from this process, Malaysian companies will need to be involved in the global supply chains in the distributive trade services sub-sector. Hence, there will be a need to formulate strategies and measures to improve the competitiveness of Malaysian-owned service providers to be part of the global supply chains.

#### *(iv) E-Commerce in the Distributive Trade*

20.132 Wholesalers, retailers and other key operators in the distributive trade will need to enhance their capacities, in particular, through increasing the utilisation of ICT. In this respect, there is a need for greater participation of the service providers in programmes which have been initiated, such as the RosettaNet and Central Item Registry Project (to store common information on products in a central database).

### (c) Construction Services

#### *(i) Methods and Practices*

##### *Multi-Layered Sub-Contracting*

20.133 The prevalent practice in the construction sub-sector is multi-layered sub-contracting. However, this practice may have reduced the share of business and profitability of some contractors, as well as the quality of the output and services rendered.

#### *Labour-Intensive Construction Methods*

20.134 The sub-sector lacks standardisation of the designs and materials and other labour-saving construction methods used. There is a need for a major rationalisation of the standards within the sub-sector. The overall focus on costs has affected the adoption of technology in the sub-sector. Cost and budget constraints, together with the availability of low cost foreign labour, have compelled some contractors in the sub-sector to opt for standard architectural designs of lower quality and labour-intensive construction methods. This has hampered productivity and quality improvements in the long run. There is a need to further promote and encourage the use of the Industrial Building Systems, a construction process which utilises techniques, products, components or building systems, involving prefabricated components and on-site installation. Presently, capital expenditures on the purchase of moulds used in the production of Industrial Building Systems components, are eligible for Accelerated Capital Allowance for a period of three years.

#### *(ii) Low Entry Barrier*

20.135 Low barrier to entry has created excess capacity in the sub-sector, particularly among Grade One contractors, with bidding capacity of not more than RM200,000. Presently, of the 71,503 contractors registered with the CIDB, 58 per cent are Grade One contractors. There is a need to restructure the entry level requirements and the registration system of contractors to encourage the creation of larger contractors, which will promote greater efficiency in the sub-sector.

#### *(iii) Provision of Total Solutions*

20.136 Malaysian construction companies have not been able to provide total solutions (including financing package and equipment), when competing for overseas projects. To be able to compete with foreign firms in tendering for both domestic and foreign projects, there is a need to enhance value-added in the support activities, such as building materials, tooling, heavy equipment and machinery. There is also a need to complement the support services, with the provision of a comprehensive financial package, to strengthen the bargaining position of Malaysian bidders.

### (d) Education and Training Services

#### *(i) Supply of Critical Skills*

20.137 To produce the required human resources in sufficient quantity and quality to support the growth areas in the IMP3 for the manufacturing and services sectors, private higher education institutions will need to be encouraged to participate in developing the critical skills required by industry. The areas include software engineering, biomedicine, chemical engineering and international marketing.

#### (ii) Skilled and Technical Trainers

20.138 While the Government had established training institutions for skilled and technical trainers, there is still a shortage of technical trainers in key areas required by industry. Greater private sector participation is required to produce the skilled and technical trainers. In the medium to long terms, Malaysia will need to develop and increase R&D activities to meet industry requirements and promote the country as a regional centre of educational excellence in research. Hence, there is a need for private higher education institutions to strengthen and widen their linkages with reputable foreign universities and research institutions. There is also a need to simplify immigration requirements and procedures to facilitate the employment of foreign trainers to support Malaysia's move to become a regional centre for education and research.

#### (iii) Capabilities in Science and Technology

20.139 The research and innovation capabilities of local institutions of higher learning need to be strengthened to facilitate the nurturing of an innovative society, with greater capabilities in science and technology. Collaboration in research between private higher education institutions and industries, which is presently lacking, needs to be intensified.

#### (iv) Recognition of Domestic Qualifications

20.140 International recognition of local qualifications is an important quality benchmark in the education services sub-sector. Presently, many degree qualifications awarded by local educational institutions are not recognised internationally. Similarly, not all professional courses are recognised by international professional bodies. Therefore, there is a need to seek internationally recognised accreditations for a greater number of the local qualifications.

#### (v) Competitiveness to Attract International Students

20.141 There is considerable potential in increasing the number of foreign students in the private higher educational institutions. Malaysia is facing competition from neighbouring countries to attract foreign students. Apart from seeking international accreditations, there is a need to focus on continuous upgrading of the quality and standards of the education services and intensify measures on information dissemination, publicity and promotion. An appropriate branding for Malaysian higher education services is needed for image building.

20.142 There is a need to address areas of concern by foreign students, such as welfare, social support services and counselling. There is also a need to improve and streamline immigration rules and procedures to facilitate the entry of foreign students. A coordinated approach needs to be undertaken between Government agencies and agents of education institutions to facilitate the entry of foreign students.

**(e) Health Services**

***(i) Shortage of Medical Professionals***

20.143 There is a shortage of medical professionals in the health and allied health profession. The shortage will need to be addressed, since it affects the quality of the service delivery in the sub-sector. Short-term measures have been undertaken to allow the recruitment of foreign doctors and encourage foreign-based Malaysian doctors to return to Malaysia under the 'Brain-Gain' programme, as well as grant permission to Government doctors to provide part time services to private hospitals.

***(ii) Establishment of Foreign Firms***

20.144 Presently, there are restrictions on the establishment of foreign firms in the health sub-sector. Nevertheless, the expansion of the private health segment has been accompanied by the partial opening of the market to foreign firms, with a view to reducing costs, relieving the burden of the public sector, introducing new technologies and promoting the export of health services.

***(iii) Data Collection***

20.145 Information and data on private sector participation in the entire value chain of the health services sub-sector are inadequate. There is a need to address this constraint, through the collation of comprehensive information and data on private healthcare services on a regular basis.

**(f) Tourism Services**

***(i) Dependency on Short-Haul Tourists***

20.146 ASEAN countries accounted for 76.8 per cent of the total tourist arrivals in 2005. There is a need to intensify the promotion of Malaysia as a tourist destination in niche markets, such as the People's Republic of China, Japan, Australia, the UK, Taiwan, India and West Asia, in the short term, and Europe and the USA, in the medium term.

***(ii) High Value Tourism***

20.147 Malaysia will need to diversify from the mass tourism market towards more targeted high-value tourism. Malaysia has comparative advantages in promoting agro-tourism; eco-tourism; health-tourism; edu-tourism; and meetings, incentives, conferences and exhibitions tourism. Malaysia also implements 'Malaysia My Second Home' programme as a tourism product, to attract foreign citizens to stay longer in Malaysia. The comparative advantages will need to be translated into attractive tourism packages targeted at developed countries, such as Australia and the European Union (EU), and emerging economies, such as the People's Republic of China, ASEAN countries and West Asia.

20.148 The tourism packages will need to be complemented by comprehensive end-to-end services. For example, in the case of health tourism, the end-to-end package will include visa and travel arrangements, accommodation for patients and family members, and recuperation and home care facilities. Similar end-to-end packages will need to be extended to other tourism products, such as edu-tourism; sports tourism; and meetings, incentives, conferences and exhibitions tourism. Presently, the country possesses tourism facilities of international quality. To enable the use of the facilities to be optimised over a long period, there is a need to enhance the maintenance culture and professionalism among the operators of tourism projects and service providers.

***(iii) Foreign Investments and International Networks***

20.149 Foreign ownership of tourism related businesses, which is presently allowed up to 49 per cent, has, to some extent, limited Malaysia's participation in the international tourism chain. The requirement has also resulted in a low level of foreign participation in the sub-sector. There is a need to review the requirement to encourage greater involvement of international tourism service providers in the sub-sector and enhance Malaysia's participation in the international tourism chain.

## SECTION XI STRATEGIES AND POLICIES

### TARGETS

20.150 In the IMP3, the services sector is expected to assume a major role in driving the growth of the economy. Separate targets have been set for the non-Government and construction components of the sector:

**Growth**

- non-Government services are targeted to grow at an average annual rate of 7.5 per cent; and
- construction services, at 5.7 per cent;

**Contribution to the GDP**

- non-Government services are expected to contribute 59.7 per cent to the GDP by 2020; and
- construction services, 2.5 per cent; and

**Investments**

- non-Government services are targeted to attract investments amounting to RM45.8 billion per annum; and
- construction services, RM12.6 billion (Table 20.15).

TABLE 20.15

**INVESTMENT AND TRADE TARGETS FOR NON-GOVERNMENT AND CONSTRUCTION SERVICES**

| *Investments/Trade* | *2006-2010* | *2011-2015* | *2016-2020* | *2006-2020* |
|---|---|---|---|---|
| | *(RM billion[1])* | | | |
| **Total private investments** | **137.0** | **270.9** | **469.2** | **877.1** |
| Non-Government services | 92.6 | 210.7 | 384.4 | 687.7 |
| Construction | 44.4 | 60.2 | 84.8 | 189.4 |
| **Total average annual private investments** | **27.4** | **54.1** | **93.9** | **58.4** |
| Non-Government services | 18.5 | 42.1 | 76.9 | 45.8 |
| Construction | 8.9 | 12.0 | 17.0 | 12.6 |
| **Total net services trade at end period** | **-4.6** | **42.7** | **129.2** | **129.2** |
| Exports | 118.7 | 210.8 | 349.9 | 349.9 |
| Imports | 123.3 | 168.1 | 220.7 | 220.7 |

*Note*: [1] In current prices
*Source*: Ministry of International Trade and Industry

## STRATEGIC THRUSTS

20.151 To create an efficient and competitive services sector and accelerate its growth, five overall strategic thrusts have been set:

(1) enhancing the competitiveness, productivity and efficiency of the service providers;

(2) developing the capacities and capabilities of the targeted sub-sectors;

(3) positioning Malaysia to be a regional centre for selected services, namely, distribution, tourism, education, health, and identified business and professional services;

(4) creating a more conducive business environment for investments and exports of services; and

(5) strengthening the institutional support in the development and promotion of the identified sub-sectors.

20.152 The strategic thrusts will guide the overall direction and development of the services sector and the targeted sub-sectors. Elaboration of the first three thrusts will be covered in the targeted sub-sectors. Thrusts four and five are applicable for the entire sector. With the formulation and implementation of the policy initiatives and measures, Malaysia is expected to benefit from the impact of investments and exports of services. The deficit in the BOP for invisibles is expected to be reduced, through the greater utilisation of domestic services and further increase in the export of services.

## POLICY MEASURES APPLICABLE FOR THE ENTIRE SECTOR

### (1) CREATING A MORE CONDUCIVE BUSINESS ENVIRONMENT

#### (a) Enhancing the Access to Financing

20.153 The Government will consider providing the financial support to assist Malaysian companies in undertaking services-related ventures abroad. Closer cooperation and collaboration between the financial institutions and service providers will be encouraged. To enhance the access of the sector to financing, two funds have been established under the Ninth Malaysia Plan (RMK-9), 2006-2010, namely the Export Services Fund and Services Development Fund for SMEs. Banking institutions will be encouraged to collaborate with the Export-Import Bank of Malaysia Berhad (EXIM Bank) to complement the facilities provided by the bank.

#### (b) Strengthen Private Sector Representation

20.154 To promote the growth of the sector, the Government will encourage private sector associations and professional bodies to set up an umbrella body, with representatives from the various associations of the sector. Main functions of the umbrella body include:

- promoting the development of a more efficient and 'service friendly' environment;
- providing a focal point for liaison with the Government;
- making recommendations or submissions on behalf of members;
- contributing towards the development of bilateral, regional and multilateral rules for trade in services; and
- establishing and developing links with counterpart organisations.

### (2) STRENGTHENING THE INSTITUTIONAL SUPPORT

#### (a) Coordinated Development Programmes

20.155 The Government will establish the Services Industry Development Council. The council will comprise representatives from relevant ministries and agencies, industry representatives and members of the academia. The council will be responsible for:

- providing leadership in the overall development of the sector, as well as the coordination and implementation of policies and programmes, covering areas such as liberalisation initiatives, institutional support, infrastructure, and rules and regulations;

- monitoring the implementation of programmes and activities of the respective ministries, State Governments and authorities involved in the development and promotion of the sector; and
- ensuring that the development of the sector is in line with the overall strategic thrusts of the IMP3.

20.156 Programmes of the council will include:

**Services development**



The focus will be on developing, reviewing and improving:

- the regulatory framework and processes, based on the overall objectives and priorities of the sector;
- coordination between agencies, especially for the different services sub-sectors;
- focal points within the private sector, which will be involved in the targeted services activities; and
- investment plans, including support and promotion needed for capacity building.



**Services institutions**

The focus will include enhancing:

- existing training institutions to improve knowledge and skills in the sector; and
- the capacity to undertake data collection and analysis, and R&D, including the development of technologies and innovations.

**Services infrastructure**

Infrastructure requirements of the services sub-sectors will be identified, planned and provided for to supplement the existing infrastructure. Areas of focus include:

- examining the adequacy and efficiency of the existing infrastructure, including telecommunications networks and other facilities and their connectivities, to ensure high standards of service delivery;
- providing adequate physical infrastructure, for example, transportation; and
- improving the standard of facilities and their maintenance in public, tourist and recreation places in the country, taking into consideration the special needs of users, such as the disabled, aged and infants.

**Liberalisation of trade in services**

The following approaches will be adopted:

- sub-sectors which are competitive will be targeted for liberalisation and the scope, coverage and timeframes for liberalisation will be drawn up; and

- progressive liberalisation will be considered in other sub-sectors to enhance their competitiveness.

**(b) Expanding the Role of the Ministry of International Trade and Industry and its Agencies**

20.157 MITI has been given the responsibility to develop and promote the services sub-sectors which are presently not under the purview of any regulatory ministry and agency. The formulation of strategies, policies and programmes for the development and promotion of the sub-sectors will involve MITI and its agencies (MIDA, MATRADE, SMIDEC and NPC), together with other relevant ministries and agencies. The institutional capacity of MITI and its agencies will be enhanced to enable the organisations to undertake the expanded role effectively.

20.158 MIDA will intensify its efforts to attract investments, including FDIs, into the targeted services sub-sectors. It will reorganise its structure to undertake this additional responsibility. The reorganisation will include:

- expanding the relevant divisions to promote investments in the new growth areas;

- extending the scope of 'hand-holding' activities to cover the services sector;

- coordinating with the relevant ministries and agencies, as well as private sector associations, in the development and promotion of services;

- improving the statistical collection in the services sector, in collaboration with the Department of Statistics and the relevant ministries and agencies; and

- disseminating information, for example, by publishing guidebooks for the targeted services activities.

20.159 MATRADE will increase its resources and enhance its capacity to facilitate the expansion of Malaysian service providers overseas through:

- setting up a division to focus on the promotion of the export of services;

- enhancing the knowledge and competencies of its personnel. In addition, it will recruit marketing experts in specific service sub-sectors for selected MATRADE offices overseas; and

- opening new offices in strategic locations, particularly in the new and emerging markets.

MIDA and MATRADE, in collaboration with other relevant agencies and the private sector, will undertake studies on the competitiveness of the targeted sub-sectors, as well as identify cross border trade and outward investment opportunities.

20.160 SMIDEC will introduce measures to promote the greater growth and contribution of SMEs in the targeted sub-sectors, including:

- strengthening the technical expertise of SMEs in the targeted sub-sectors. The existing training programmes for SMEs will be improved to focus on required skills, such as managerial, technical, pricing, packaging and merchandising;

- encouraging SMEs to participate in the integrated logistics supply chains. In this respect, SMEs will be encouraged to adopt greater utilisation of ICT to increase their levels of productivity and efficiency in the supply chains; and

- developing programmes to encourage professionals to become entrepreneurs in their own fields.

20.161 NPC will expand its capacities and capabilities to implement initiatives on TFP to enable a wider outreach to the services sector and meet the needs of a knowledge-based society. The initiatives include:

- enhancing the human capital and nurturing a culture of innovation and creativity in the new growth areas; and

- developing global best practices through competitive benchmarking and promoting the adoption of international standards and best practices in the services sector.

**(c) Improving Database**

20.162 Comprehensive data on services are required for the formulation of policies and programmes to further develop the services sector. The data include trends, structure and contribution of the services sector to the economy. Measures which will be carried out by the Department of Statistics include:

- adopting a standard approach to the concepts on services, in particular, statistical terminology, for all Government publications, in line with the commitments under the GATS and AFAS for trade statistics, as well as the international classification of services output;

- undertaking regular censuses on overall services activities and surveys at the enterprise level for both domestic and externally traded services activities;

- adopting a standard approach in collecting and reporting the statistics for all services sub-sectors, with consistent disaggregation of the services components; and

- developing measurements and indices for different key areas, such as services production and service prices.



## POLICY MEASURES FOR THE SUB-SECTORS

### (1) BUSINESS AND PROFESSIONAL SERVICES

#### *(i) Promoting Shared Services Outsourcing*

20.163 A more conducive business environment will be created to promote business process outsourcing and offshoring, including the adoption of leading technologies and ICT. The provision of incentives will be considered for shared services, such as call centres and contact centres, and selected high value services, such as research, design and development, human resource management, IT services and market research.

#### *(ii) Promoting Trade and Outward Investments*

20.164 Targeted business and professional services in the sub-sector which have the capacities and capabilities to engage in regional trade, will be encouraged to export their services to regional and niche markets, such as ASEAN, the People's Republic of China and West Asia. The targeted services include:

- accounting, engineering, architectural and specialised legal services within the accredited professional services; and

- advertising, management and IT consulting, environmental consultancy services, and oil and gas services within the non-accredited professional services.

Trade promotion, facilitation measures and other support will be provided to promote cross border trade and outward investments in these services. To facilitate market access for the targeted professional services, MRAs will be initiated through bilateral and regional arrangements.

*(iii) Enhancing Service Delivery*

20.165 In view of the increased competition from foreign firms, measures will be undertaken to enhance the service delivery of the targeted business and professional services. The measures include:

- enhancing the efficiency of the service providers through accreditation and upgrading of knowledge and skills;
- establishing service centres, which, apart from enhancing the service delivery, will also facilitate the promotion of networking among firms, as well as assist in providing the technical support and know-how; and
- adopting a more coordinated approach by the existing professional bodies in developing the services of their members, in preparation for expansion to overseas markets.

**(2) DISTRIBUTIVE TRADE SERVICES**

20.166 Given the social change, urbanisation and the evolving lifestyles of the population, structural changes are expected in the distributive trade services. Efforts will be undertaken to further develop the sub-sector in areas such as:

- strengthening the modes of distribution to enhance the efficiency, productivity and competitiveness of the sub-sector;
- accelerating the growth of e-commerce to support the modernisation and expansion of the sub-sector;
- expanding the scope and scale of the domestic service providers; and
- enhancing the existing regulatory framework to promote the development of the sub-sector.

*(i) Distributive Trade Master Plan*

20.167 A Distributive Trade Master Plan is being formulated, which will take into consideration the development objectives and targets of the IMP3. This is to ensure that the plan will create greater inter-sectoral linkages between the distributive trade and the rest of the economy. The plan will contain strategies and measures, among others, to promote FDIs and cross border trade, as well as upgrade the activities of the domestic service providers in the sub-sector.

*(ii) Promoting the Export of Franchising*

20.168 There is potential for homegrown franchise businesses to expand overseas. MATRADE, in collaboration with the Ministry of Entrepreneur and Cooperative

Development and the Malaysian Franchise Association, will support the growth and expansion of franchising, through hosting international franchise trade fairs and promotion missions.

### *(iii) Providing Support for Small and Medium Enterprises*

20.169 The Government will introduce policies and programmes to assist SMEs in the distributive trade in enhancing productivity, skills and technical capabilities, and acquiring management knowledge and new operational methods. Programmes will be introduced to build networks between large and small enterprises, as well as foreign and local enterprises in the distributive trade, so that the local enterprises will be able to gain from technology transfers and enhanced productivity. Measures to promote SMEs to become larger entities and be more competitive will be introduced, including encouraging consolidation, through mergers, acquisitions and joint ventures.

### *(iv) Enhancing Total Factor Productivity*

20.170 To be more productivity driven, increase in the demand intensity for distributive trade services will be encouraged. Initiatives to be undertaken include:

- encouraging the sub-sector to become more customer-oriented through customer relations management;

- providing assistance for local franchised products and services;

- enhancing the professionalism of the workforce through training and retraining;

- adopting marketing strategies, such as developing Malaysian brand names and undertaking promotion overseas;

- encouraging the sub-sector to integrate and consolidate their businesses, through new retailing and consumerism concepts, to reap economies of scale and rationalise costs; and

- promoting the greater utilisation of ICT in business transactions in areas such as procurement, advertising, ticketing and shopping, for example, the application of bar coding in the service supply chains.

### *(v) Enhancing the Regulatory Framework*

20.171 To sustain the growth of the sub-sector, efforts will be undertaken to improve the existing regulatory framework to create a more conducive institutional environment for healthy competition and fair trade practices. A Fair Trade Practices Law will be introduced and implemented in stages. In addition, a

Malaysian Competition Network will be formed to provide a platform for deliberations among the public and private sectors in the formulation of strategies under the Fair Trade Practices Law.

## (3) CONSTRUCTION SERVICES

### *(i) Improving the Regulatory Framework*

20.172 The construction sub-sector will be nurtured with greater professionalism to generate high quality output and services. To encourage high value-added construction works, a more stringent registration requirement will be introduced. The CIDB will become an integrated centre for the registration and renewal of licences of contractors. To improve the performance of contractors, a comprehensive performance rating system will be introduced to cover key areas such as quality, safety and health, environment and financial strength. The present public sector procurement mechanism will be enhanced to incorporate best practices, including adopting pre-qualification of potential bidders and a more open and transparent tendering system.

### *(ii) Promoting Collaboration and Joint Ventures*

20.173 Construction service providers will be encouraged to collaborate or form joint ventures to create stronger and more resilient contractors and be able to position themselves to compete in both the domestic and foreign markets. Malaysian contractors bidding for large projects will be encouraged to shift from the present approach of individual bidding towards providing a total package, including a cluster-based bidding strategy. This strategy requires collaboration among Malaysian construction firms with providers of complementary skills and expertise, including professional services, and financial backing and resources, to bid for large projects. A special unit has been set up in the Prime Minister's Department to coordinate and support the development of the total package approach. This will be undertaken, in collaboration with the CIDB, PSDC, NAPSEC and MATRADE.

### *(iii) Increasing Mechanisation and Modularisation of Construction Activities*

20.174 To generate more cost effective construction projects and lessen the dependence on labour, the utilisation of the Industrial Building Systems will be intensified. The Government has approved the Industrial Building Systems Road Map, 2003-2010, which contains measures to promote the adoption of the Industrial Building Systems and modular coordination, including:

- encouraging the development of the required workforce;
- continuing to develop materials (components and machines); and
- continuing to enhance management processes and methods.

In the IMP3, measures to be undertaken by the Government include:

- granting green-lane approval for building plans utilising the Industrial Building Systems and modular coordination; and

- emphasising on R&D activities related to the Industrial Building Systems and modular coordination, for example, the development of materials, including components and machines.

***(iv) Enhancing Total Factor Productivity***

20.175 Productivity of the sub-sector will be further enhanced by increasing the contribution of TFP growth in the sub-sector. Measures include undertaking:

- better management of construction practices;

- sustainable construction practices for safer and cleaner construction sites;

- continuous and systematic quality control through compliance to standards and international requirements; and

- quality enhancement of the workforce and development of industrial expertise, through technical training, continual professional development and on-the-job training.

20.176 Quality assurance of the construction projects will be promoted through the greater use of prefabricated materials and application of construction practices utilising high technology. Modern design and manufacturing methods, involving ICT and the usage of computer-aided design (CAD) and computer-aided manufacturing (CAM), will be widely applied.

## (4) EDUCATION AND TRAINING SERVICES

***(i) Enhancing the Business Environment***

20.177 A review of existing policies, regulations and rules on the establishment and operation of private education and training institutions will be undertaken. This will include reviewing the equity conditions and streamlining the approval procedures for the establishment of the institutions. Procedures, and their implementation, on the entry and re-entry of students, and the entry, employment and re-entry of expatriates and their spouses, will be further simplified. Existing processes on registration and approvals will be streamlined to improve the efficiency and quality of the Government delivery system relating to the establishment and operation of private education and training institutions.

### *(ii) Enhancing the Quality and Standards of Education*

20.178 Malaysian Qualification Agency, to be established by the end of 2006, will further strengthen the national educational standards. The setting up of the agency will involve the merging of the functions of LAN and the quality assurance division of the Ministry of Higher Education. The merged entity will establish a unified quality assurance system, including the benchmarking of institutions of higher education with international standards and regular audit on quality to nurture competition. A qualification framework will be implemented to ensure that programmes, curricula, teaching and learning facilities, and student support facilities are of international standards.

### *(iii) Promoting the Export of Education Services*

20.179 To realise the target of attracting 100,000 foreign students at all levels by 2010, a more coordinated approach in the promotion and marketing efforts overseas will be undertaken, which includes the establishment of a dedicated agency to promote the export of higher education. Assistance will be provided to the private sector in their efforts to promote and attract the students, including supporting their investments.

### *(iv) Increasing the Training Capacities*

20.180 To complement the Government's efforts, private education and training institutions will be encouraged to conduct training for their trainers. To address a possible shortage of trainers in the short term, the recruitment of foreign trainers in important areas will be allowed. In the long term, the entry of foreign trainers will be progressively liberalised. Procedures, and their implementation, on the employment of foreign trainers will be further simplified.

### *(v) Promoting Investments in the Education and Training Services*

20.181 Assistance will be provided to promote:

- the establishment of specialised private training centres for various services sub-sectors, including those for personnel training; and
- new investments and the expansion of existing branch campuses of foreign universities and colleges in Malaysia.

### *(vi) Enhancing Total Factor Productivity*

20.182 The growth of education and training services will contribute towards creating a knowledge-driven economy. Measures will be undertaken to enhance the quality of education and training through:

- improving the quality of the academic staff through upgrading their academic levels, as well as undertaking staff development programmes, to enhance their knowledge, skills and professionalism;

- expanding the education and training infrastructure and integrating ICT into the delivery systems for education, training and continuous learning;
- promoting Malaysia as a regional centre of excellence in education and training through smart public-private sector partnership; and
- networking with renowned international institutions and benchmarking against international standards.

## (5) HEALTH SERVICES

### *(i) Promoting the Growth Areas*

20.183 The promotion of the targeted health services will be intensified:

**High-end services**

- high-end curative services in centres of excellence, such as cardiothoracic services (angioplasty and bypass surgeries), cancer management services, neurological services, liver diseases, dental implant services, and endocrinal and eye disorders; and
- health tourism, which combines various aspects of leisure and wellness, such as medical screening, cosmetic surgery and health spa resorts, promoting reflexology, aromatherapy, and facial and skin enhancement, as well as traditional healing and complementary medicine;

**Healthcare support services**

- hospital support services, such as biomedical engineering maintenance, facility engineering maintenance, cleansing, linen and laundry, and clinical waste management services;
- healthcare informatics, such as electronic medical records, hospital information management systems, decision support systems and tele-consultation; and
- ancillary services, such as specialised clinical laboratory and diagnostic imaging services;

**Management of healthcare services**

- design and construction of health facilities, including hospitals, clinics and medical laboratories;
- management of hospitals, managed care organisations, and other health facilities and services; and

- specialised management services in areas such as planning, designing, commissioning and managing of healthcare facilities, including hospitals, in targeted markets overseas, such as ASEAN, South Asia and West Asia; and

**Health related training programmes**

- advanced training, including post-graduate courses, post-basic and short-term courses offered by local or foreign training institutions and professional bodies based in Malaysia; and

- nursing education and paramedic training, which is presently available in training schools in some hospitals.

***(ii) Enhancing the Development and Promotion of Healthcare Services***

20.184 The Health Industry Section in the Ministry of Health, established at the end of 2005, will provide greater focus on and assume a more effective role in the development and promotion of the healthcare sub-sector. The unit will serve as a communication channel between Government and the healthcare service providers. It will be the focal point to assist the service providers to address challenges, such as meeting international standards, adhering to local and international regulations, and promoting healthcare products and services. Programmes to be undertaken by the ministry include the development and promotion of other health related services, such as health tourism, health informatics, medical education, hospital support services and health facilities management. In collaboration with MIDA, it will also review and formulate incentives and other areas of support to attract more investments in the development of the sub-sector.

***(iii) Liberalising the Equity Policy in the Sub-Sector***

20.185 To enhance the competitiveness of the sub-sector, greater foreign participation and investments in the sub-sector will be encouraged. The Government will progressively liberalise the equity requirements of segments of the sub-sector which are ready for competition.

***(iv) Human Capital Development***

20.186 Presently, there is a substantial outflow of funds from the country for the training of medical personnel, including doctors, nurses and pharmacists. A comprehensive plan on HRD for the health services will be formulated by the Ministry of Health, which will be aimed at providing an adequate supply of health and medical personnel within the country.

### *(v) Upgrading Private Hospitals*

20.187 To encourage the utilisation of the latest equipment and technology at private hospitals and enhance the attractiveness of Malaysia's health tourism programme, incentives will be considered for investments in the latest medical equipment and technology, as well as obtaining accreditation from international bodies.

### *(vi) Enhancing Total Factor Productivity*

20.188 Strategies for enhancing TFP in the healthcare services include:

- intensifying the use of tele-medicine, covering services in tele-radiology, tele-cardiology, tele-dermatology and tele-pathology. These services assist in saving time and costs, and minimising inconvenience in travelling for patients;

- updating IT facilities and equipment, which will increase the productivity level of healthcare personnel and assist in reducing waiting time for patients. Training will be provided to enable the personnel to utilise the new technologies effectively;

- obtaining accreditation on international standards for hospital facilities and services, to enhance the quality of the services and image of the health service providers, to facilitate them to compete with other hospitals in the region; and

- promoting investments in human capital, through education and training, including post-graduate courses for doctors, nurses, and paramedic and other health-related personnel.

## (6) TOURISM SERVICES

20.189 To realise the optimal potential of tourism services as an important source of growth, in terms of foreign exchange earnings, entrepreneur development and employment generation, efforts will be focused on the development, promotion and marketing of innovative tourism products and services. Assistance will be continued to expand and upgrade domestic tourism services. In addition, efforts will be undertaken to provide greater comfort, safety and well-being of tourists.

### *(i) Enhancing High Value Tourism Products and Services*

20.190 Malaysia will focus on niche and high value tourism products, such as leisure, sports and business related activities, and targeted markets to attract long stay and high spending tourists. Measures to enhance high value tourism products and services include:

- encouraging the development and marketing of niche thematic or activity based products, such as eco-tourism, agro-tourism, cultural and heritage tourism and other specialised tourism products;
- diversifying into high value business related tourism products, such as meetings, incentives, conferences and exhibitions tourism; edu-tourism and health tourism. The Government will collaborate with the private sector in hosting major conferences, seminars and exhibitions to attract high volume and quality business travellers to Malaysia;
- encouraging the diversification to niche markets, including West Asia and the EU, and emerging markets, such as India and the People's Republic of China;
- setting key performance indicators for each of the tourism products; and
- supporting and promoting R&D efforts.

***(ii) Creating a Liberal and Conducive Business Environment***

20.191 The present equity policy in the tourism and travel related services sub-sector will be reviewed, to attract foreign expertise in developing and implementing the tourism packages. Greater foreign participation will enhance efficiency and productivity, and provide access to international tourism markets. The Government will undertake a comprehensive review of, among others, the present incentive package for hotel and tourism projects. The review will include the scope of activities, incentives (type and eligibility criteria) and equity structure.

***(iii) Enhancing Total Factor Productivity***

20.192 To attract more tourists to Malaysia, visa requirements will be simplified and tourism services will be further enhanced through initiatives in TFP. A greater demand for tourism services will be encouraged to optimise the present tourism infrastructure, facilities and resources through new tour packages, such as eco-tourism, agro-tourism, health-tourism and home-stay programmes. More focused marketing strategies, for example, e-tourism, which is targeted at both short-haul and long-haul markets, will be adopted to further promote the sub-sector. Promotion efforts to be undertaken include making available accurate and timely information on tourism products and services. More multi-skilled employees will be made available, who are able to communicate effectively, provide current and relevant information, are innovative and creative, and able to enhance the service delivery. Tourism-related personnel, including tour guides and operators of facilities, will also be mobilised to provide more comprehensive and integrated tourism products and services.