



GROWTH AREAS IN SERVICES



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STRATEGIES AND POLICIES

TARGETS

1.01 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 1.1).

TABLE 1.1

INVESTMENT AND TRADE TARGETS FOR NON-GOVERNMENT AND CONSTRUCTION SERVICES

<i>Investments/Trade</i>	<i>2006-2010</i>	<i>2011-2015</i>	<i>2016-2020</i>	<i>2006-2020</i>
	<i>(RM billion¹)</i>			
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

- 1.02 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.
- 1.03 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 CONDUCTIVE BUSINESS ENVIRONMENT

(a) Enhancing the Access to Financing

- 1.04 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

1.05 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**

1.06 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.

1.07 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

- 1.08 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.
- 1.09 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.
- 1.10 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.

- 1.11 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.
- 1.12 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**
- 1.13 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

- 1.14 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

- 1.15 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

- 1.16 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

1.17 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*

1.18 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*

1.19 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*

1.20 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

- 1.21 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

- 1.22 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

- 1.23 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

- 1.24 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

- 1.25 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

- 1.26 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.

1.27 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

1.28 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

1.29 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

1.30 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

- 1.31 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

- 1.32 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

- 1.33 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

- 1.34 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*

- 1.35 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

- 1.36 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

- 1.37 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

- 1.38 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

- 1.39 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

1.40 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

1.41 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

1.42 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

- 1.43 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.