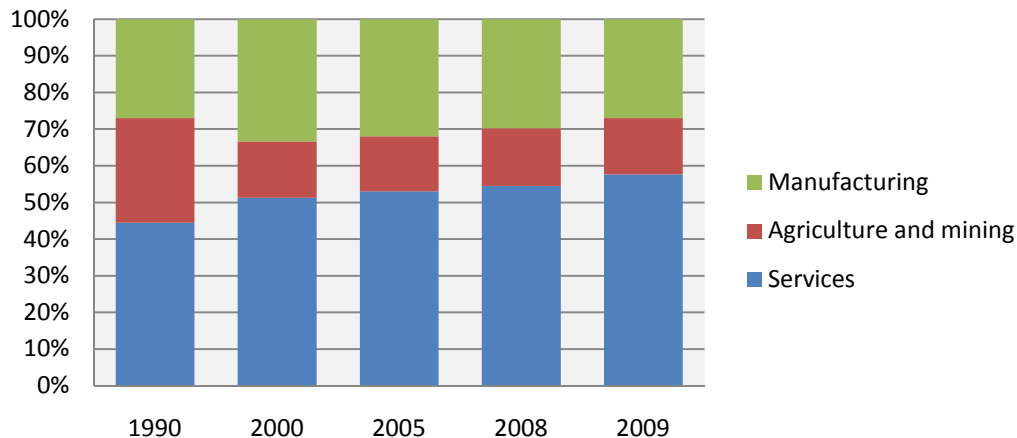


# **Growing Trade in Services in APEC Economics: Malaysian Experience**

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29 June 2011**

# Services Sector in Malaysia

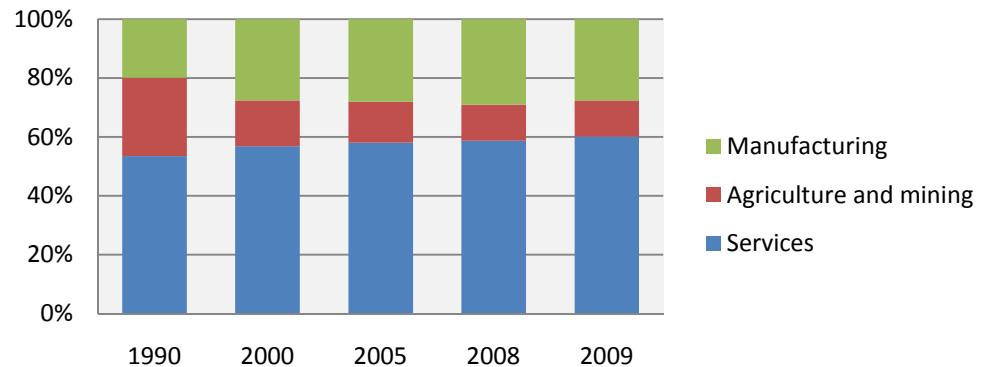
**Sectoral Contributions to GDP, Selected Years**



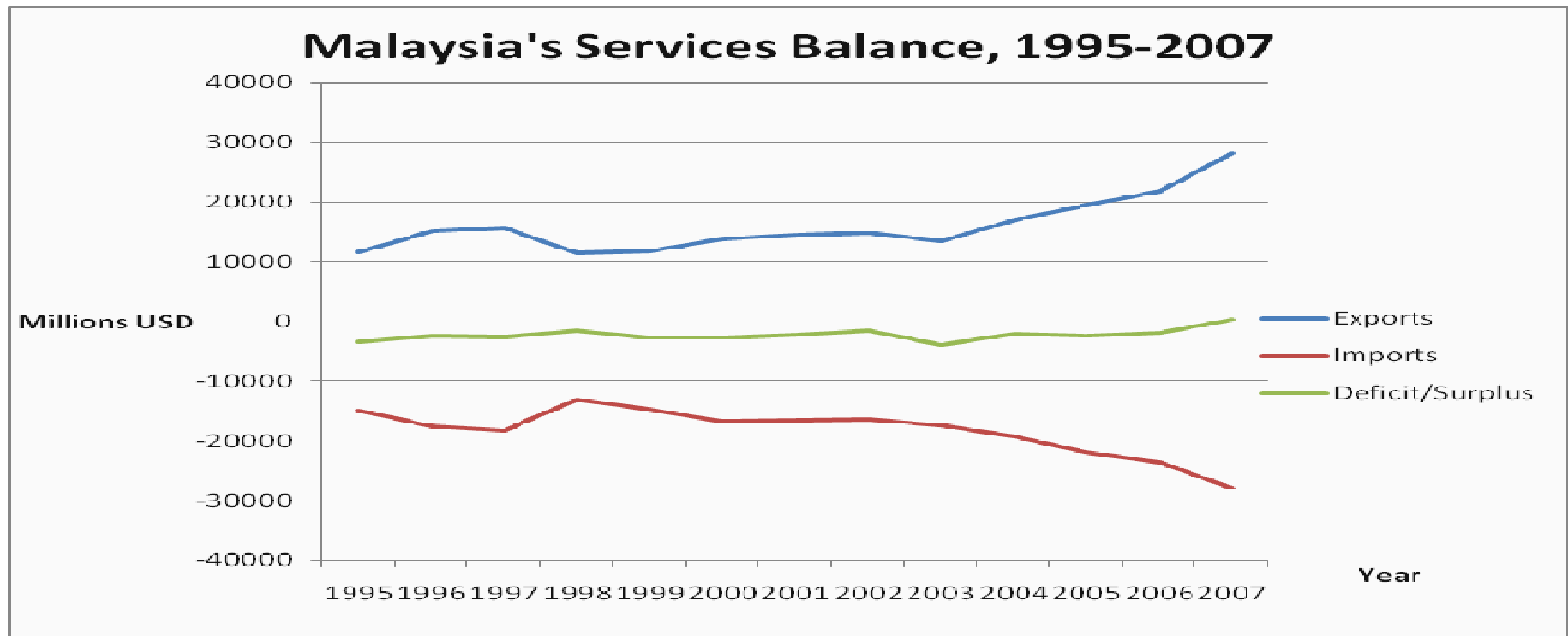
In 2009, services sector contributed 57% of GDP and 60% of total employment.

- Services sector contributions to Malaysian economy grew overtime.
- Moved from supporting manufacturing, agriculture and mining to a sector with highest potential to drive Malaysian economy through trade and domestic consumption.

**Sectoral Contribution of Share in Employment, selected years**



# Malaysia: Services Accounts



Source: IMF's Balance of Payment Statistics

- In the past, Malaysia's services balances are in deficit.
- After capacity building and policy push e.g. tourism, private healthcare and private education, Malaysia recorded first surplus in 2007.

# Components of Services Exports

- From 1998 to 2008, share of services in total exports has stagnated between 12 to 14% .
- Based on the IMF's Balance of Payments Statistics:
  - From 1995-2000, largest component in Malaysia's export of services accrued to "*other services*", followed by travel and transport.
  - From 2000 onwards, "travel" became the main contributor to services export. In 2008 its share was 50% of services export.
  - Export in computer and information services is growing. In 2009, the cumulative ICT services exports from the Multimedia Super Corridor (MSC) amounted to USD2 billion.
  - Outflows of freight and insurance contributed to the deficit in Malaysia's services account balance. This largely due to Malaysia's trade in manufactures. Sea transport has been identified as the main contributor to the deficit.



# Services Exports: Potential Sub-sector

Sub-sectors	Main Markets	Attractions
Private Higher Education	China, Bangladesh, Iran	<ul style="list-style-type: none"> <li>• Costs</li> <li>• Transnational undergraduate program offered by established foreign universities like University of Nottingham and Monash University</li> <li>• University-pre courses (A-Levels &amp; English language) provided by institutions with proven track records.</li> <li>• Cultural consideration for students from the Middle East</li> </ul>
Medical Tourism	Indonesia, Japan, Europe	<ul style="list-style-type: none"> <li>• Meeting healthcare needs of neighbouring countries</li> <li>• Cost advantage.</li> <li>• Popular procedures include coronary, plastic surgery, hip and knee implants, dental implants and high-end diagnostic services.</li> </ul>
Tourism	ASEAN: Singapore, Indonesia, Thailand Non-ASEAN: China, Japan Australia	<ul style="list-style-type: none"> <li>• Emergence on low cost carriers in ASEAN.</li> <li>• Rise of middle-class in ASEAN</li> <li>• Expansion of low-cost carriers into other continent like Australasia, East Asia and Europe.</li> </ul>



# Domestic Policies to Promote Services Trade

## ■ Domestic policies

- Telecommunication: Liberalisation to promote capacity building and competition
- Banking: consolidation of banks to strengthen capacity and encourage them to be regional players
- Medical: promotion of provision of private medical health services - Medical Act and Regulations 1971, Private Healthcare and Services Act 1998, Malaysian Health Promotion Board Act 2006
- Education: Liberalisation to allow foreign providers and promotion of private education: Education Act 1996, Private Higher Educational Institutions Act 1996, National Accreditation Act 1996, Tourism Industry Act 1996
- Air services: promotion of low cost airline



# Liberalisation commitments of services trade

- Multilateral - General Agreement in Trade in Services (GATS)
  - Malaysia committed 7 out of 12 services sectors. Limited horizontal commitments for Modes 3 and 4 in both market access and national treatment.
- Regional - ASEAN Framework Agreement in Services (AFAS)
  - Malaysia has adopted GATS-plus commitments; listing more sectors and subsectors for liberalization. However horizontal commitments remains the same.
  - Level of commitments improves as AFAS rounds of packages progressed. In the seventh round, 20 subsectors under CPC 3 digits, 21 under CPC 4 digits and 19 CPC 5 digits services sub-sectors were committed.
- Bilateral FTAs
  - Implemented bilateral FTAs have a chapter on trade in services. Bilateral horizontal commitments remained for all parties. Implemented FTAs include with Pakistan, New Zealand, Chile, and Japan.
  - Malaysia also committed services liberalization through ASEAN FTAs

Country	Status	Services Components
Malaysia-EU	Negotiation	Working Group established
Malaysia-Turkey	Negotiation	Negotiation on Trade in Services will commence a year for Market Access Agreements is implemented.
Malaysia-Australia	Negotiation	In discussion
Malaysia-India	Concluded	Concluded



# Barriers to Trade in Services:

- Liberalization method: Have yet to consolidate the various sectoral plans into a Master Plan for the development of the services sector, including a roadmap for liberalization. Efforts done have been fragmented i.e. the establishment of Professional Services Development Corporation for Mode 4.
- Barriers in Trade and Investment: Licensing requirements still exists in several services subsectors i.e. logistic services where one part of the value chain is completely liberalized but some are highly closed. The abolishment of the Foreign Investment Committee in 2009 has reduced restrictiveness of investment regimes in the country.
- Barriers to Business and Supply Capacity: Monopolies, duopolistic and oligopolistic exist in several sub-sectors. I.e. local domestic airlines routes are reserved for 3 main airlines; two are owned by the government
- Subsidies/ State Intervention: Subsidies on several input prices influenced services sectors. Example logistics dependency on diesel prices.
- Movement of natural person: Professional associations like lawyers, nurses, architects and doctors are highly adverse to flow of professionals from other ASEAN countries. Progress has been made via agreement on MRAs





# Policy Lessons from the Malaysian experience

- Malaysia services export competitiveness was built overtime.

Example: competency in higher education came from private sectors initiatives to fulfill demand of limited tertiary education provided by public institution.

- Adoption of a clear liberalization policy:

Malaysia started by adopting sectoral approach of liberalization. However in the beginning it failed to address inconsistency when licensing systems straddle over several Ministries. Sub-sector liberalization done in isolation also neglected the entire value chain of activities.

- Adoption of a clear services trade promotion:

Example: Ministry of Tourism's campaigns never includes healthcare tourism. Healthcare tourism is left under a different ministry.

- Investment in infrastructure:

ICT services need huge infrastructure spending (consistent electricity services, broadband infrastructure). Tourism services need proper point of entry (ports) to receive tourists and goods. Logistics services will function well with well developed road and rail system and freedoms of air along with good entry points.





**Thank You**

