

# **MALAYSIA'S SERVICES INDUSTRY TOWARDS THE GLOBAL ENVIRONMENT**

**Bryan Lo Ching Wing**

Labuan School of International Business and Finance  
Universiti Malaysia Sabah, Labuan International Campus  
lo38@tm.net.my

**Ooi Ai Yee**

Labuan School of International Business and Finance  
Universiti Malaysia Sabah, Labuan International Campus  
ooiaiye@yahoo.co.uk

**Christianna Chin Pei Yee**

Labuan School of Informatics Science,  
Universiti Malaysia Sabah, Labuan International Campus, Malaysia.  
christychin80@yahoo.com

## **Abstract**

Nowadays, services sector is an important engine of the global economy development and it continues to grow vigorously. The progress of globalization, government liberalization, and the rapid advancement of information and communication technology (ICT) contributes to the continual acceleration of this sector. Since the services sector is playing its role fruitfully as one of the main economic builders to many economies throughout the world, most governments are putting greater emphasis on services sector in their countries' economic planning. Therefore, this paper describes briefly the evolution of services sector in Malaysia, the services world trade and the current global trend in this outstanding sector. Despite all the potential opportunities that the services sector would generate, the multi-faceted challenges will be invoked simultaneously. Hence, this paper also will describe in broad the opportunities and challenges, which services sector will stimulate for service industry players specifically Malaysia. To survive in the dynamic and competitive service environment, there is an ultimate necessity for services players to build a competitive edge. At the end of the paper, three competitive service strategies namely positioning, people, and system is discussed.

**Keywords:** Services Sector, World Trade, Global Trend, Opportunities, Challenges, Competitive Edge.

## **1. Introduction**

In today's competitive and dynamic environment, the services sector has become one of the main key drivers for the global economy development. It is the fastest growing sector in the world Gross Domestic Product (GDP), where the sector itself has collectively accounted for about two third of the world services trade. The underlying impacts of the continual acceleration of services in the world trade are mainly as a result of the progress of globalization, government liberalization, and the rapid advancement of information and communication technology (ICT). Various services trade, which have been obviously restricted by regulations and borders in the past are now made possible with international organizations joint alliances, inter-governments trade agreements, and efficient Internet technology (IT) network system advancement. In addition, services also have an immense impact on the development and growth of other industries because it undoubtedly complements the overall economic performance.

The services sector has successfully played its role as one of the main economic builders to many economies throughout the world. For instance, it is the leading sector in GDP contribution for countries like US, Japan, Brazil, India, and Singapore. Nowadays, most governments are putting greater emphasis on services sector in their economic planning. From US, the world largest economy country has made a continuous expansion of its leading services sector throughout the world, particularly aiming Asia region as its main target market for outsourcing. Across the Europe continent, England leverages its strength in football industry to increase progressively their services sector revenue. The Manchester United football club tour to Asia is a classic example of how the services sector contributes to their country's GDP. Moving towards north Asia, Korea is planning to bring in Universal Studio Theme Park to lure more tourists' visits to the country. Further down to East Asia, Hong Kong is expanding determinedly its movie industry to Hollywood and exchange of ideas to tap into the world film industry. The same goes to India Bollywood for a reverse international market penetration via Hollywood. Across the straits, Singapore has already amended its gambling act by issuing two casinos licenses and soon to introduce the Formula One racing circuit, striving vigorously to turnaround its tourism sector. Meanwhile, the Malaysian government can be seen focusing on building more higher education centers to attract international students endeavoring to become a regional education hub.

All the foregoing examples are apparent signs of perpetual services trade development both regionally and globally. It is anticipated that the dynamism of the world services environment is here to stay for the next decade, which would generate more opportunities for all nations. However, the potential challenges are equally great for any nations to benefit from the sector.

## **2. The Services Sector in Malaysia**

In Malaysia, services sector is ranked evidently as the second main contributor to the GDP. However, in 2005, it has recorded a remarkable performance where 62% of the 5.3% economic growth rate is represented by services trade (9<sup>th</sup> Malaysia Plan, 2006). Some of the main services sectors that generated vigorously the revenues for the economy are tourism, telecommunications, education, financial services etc. In terms of world services exports, Malaysia is among the top 30 contributors with a total of USD19.0 billion in 2005 as shown in Appendix 1. It is also among the top three leaders in ASEAN after Singapore and Thailand. In view of the past and continuous outstanding performance coupled with the external dynamism of the services environment, the government has included the services sector as one of the main thrust under the 9<sup>th</sup> Malaysian Plan to sustain its long term economic growth. Apart from the existing services sector, a few new services subsectors such as aviation maintenance, repair and overhaul; shared services and outsourcing; transport and logistics and business and professional services will be up-scaled potentially (9<sup>th</sup> Malaysia Plan, 2006). These new services subsectors and the revenues from domestic households and foreign tourists spending are envisaged to increase the current services trade. Despite the capability of domestic services market that serves as foundation for revenue accumulation, the global services environment remains a challenge. This is because Malaysia has signed the General Agreement on Trade in Services (GATS) under the WTO commitment, which means there will be an irrevocable exposure to global open competition that is already in place.

## **3. World Trade in Services**

Services trade, which is signified as one of the major contributors to the world services trade has been registering high growth rate since 2001 that exceeding 10% per annum. The summary of the world services exports are highlighted below:

- After reaching an estimated \$2.4 trillion in 2005, world services exports are forecast to grow 6% to \$2.6 trillion in 2006, and 4.5% to \$2.7 trillion in 2007.
- World services trade is expanding in tandem with strong economic growth of 5.1 % in 2004, slowing to 4.5% both in 2005 and 2006, and to 4.1 % in 2007. Economic growth is most robust in Asia, with large spillover to growth in the region's services trade.
- Export growth was very strong in all major geographic areas in 2004 and 2005. Asia recorded the fastest growth in services exports in 2004 (+26%), although in 2005 this distinction went to Africa with services export growth of 25%. Still, Asia remains a key destination for outsourcing of services from North America and the UK, as well as growing popularity as a tourist destination. After Africa, export growth in 2005 was strongest in CIS countries (+20%), followed by the Middle East (+15%), Asia (+12%), Europe (+10%), North America (+9%), and finally South America (+7%). These trends are expected to continue in the foreseeable future.

- By volume, Europe accounts for the largest share of world services exports (\$1.104 trillion), followed by Asia (\$543 billion), North America (\$420 billion), South-Central America (\$68 billion); Africa (\$57 billion), Middle East (\$54 billion), and the CIS (\$40 billion).
- By sub-sector, the largest segment was commercial services (\$1.15 trillion), followed by travel - largely tourism - (\$698 billion), and transportation (\$563 billion). Growth in export receipts was strongest worldwide in transport (+11%, down from 24% in 2004), followed by travel (+10% in 2005, down from 18% in 2004) and commercial services (+11% in 2005, down from 17% in 2004). On a country basis, latest data show growth in travel receipts in 2004 was particularly high in China (+48%), while India's commercial services receipts nearly doubled in 2004, from \$23 billion to \$40 billion.
- Growth in tourism was particularly strong in 2005, with world arrivals (the key measure of tourism) exceeding 800 million for the first time. This is a direct result of the robust global economic recovery.
- Canada's services exports increased by 1.7% in 2005 to C\$65.0 billion. Thus, the level of services exports is higher than forestry (C\$43.4 billion) but lower than energy (C\$86.9 billion). The relatively lackluster services growth rate relative to goods (1.7% versus 5.9%) was caused by some significant stresses in tourism and specific commercial services sub-sectors. For example: travel (ie. tourism) services declined by 1%; commercial services rose by 1.8%; and transportation receipts by 5.5%.
- Growth in Canada's service exports is forecast at 2.6% to \$66.7 billion in 2006, with performances varying substantially across sub-sectors.

Source: [http://www.edc.ca/english/docs/WTS\\_e.pdf](http://www.edc.ca/english/docs/WTS_e.pdf)

#### **4. The Global Trend**

With the economic growth is expected to slowdown to 4.1% in 2007, world services export growth should also slow somewhat to 4.5% in 2007 (Refer Table 1). Nevertheless, the European region would still maintain its leading position as the largest exporter in services in the world while Asia will continue to grow along with China and India as the two main contributors in sustaining the second position. North America is estimated to record higher trade in line with Asia's growth, which in fact as former target for outsourcing business. It is also forecasted that the other regions would achieve a moderate increase in their respective services trade.

**Table 1: World Service Exports by Principal Region**

<b>World Service Exports by Principal Region (US\$ billions)</b>								
Region	1990-2000	2001	2002	2003	2004	2005 (e)	2006 (f)	2007 (f)
World Total	<i>n/a</i>	1,492	1,601	1,834	2,180	2,415	2,560	2,675
<i>(Annual % change)</i>	9.3	-0.6	7.2	14.5	18.8	10.8	6.0	4.5
North America	<i>n/a</i>	319	327	343	382	420	445	461
<i>(Annual % change)</i>	10.9	-3.7	2.4	5.0	11.3	9.0	6	4
South & Central America	<i>n/a</i>	46	45	49	57	68	73	77
<i>(Annual % change)</i>	11.0	-1.9	-2.8	9.8	15.4	7.0	7.0	6
Europe	<i>n/a</i>	669	733	873	1,036	1,104	1,154	1,180
<i>(Annual % change)</i>	<i>n/a</i>	-9.7	9.5	19.1	18.7	10	5	2
CIS	<i>n/a</i>	20	23	27	33	40	48	55
<i>(Annual % change)</i>	<i>n/a</i>	13.4	18.5	16.4	23.4	19.5	20	14
Middle East	<i>n/a</i>	31	34	43	49	54	65	74
<i>(Annual % change)</i>	<i>n/a</i>	6.2	9.4	26.6	13.6	15.0	20	14
Africa	<i>n/a</i>	31	33	42	51	57	68	79
<i>(Annual % change)</i>	6.4	2.6	6.4	26.4	20.4	25.0	20	15
Asia	<i>n/a</i>	306	331	363	458	543	592	633
<i>(Annual % change)</i>	9.0	-0.6	8.1	9.9	26.0	12.0	9	7
<i>Unallocated</i>		59	75	94	114	129	115	116

Source: [http://www.edc.ca/english/docs/WTS\\_e.pdf](http://www.edc.ca/english/docs/WTS_e.pdf)

## 5. The Opportunities

The services sector is a seamless environment whereby the fundamental of service business is easily transcends beyond industry because of its complementing nature. Not only that the services industry could develop competently by itself as a sector but it could expand dynamically along with other industries' growth. For instance, services sector such as transportation and logistics; telecommunications; financial services; professional services are essential to become facilitator for other industries operations and productions. Therefore, close co-operation and co-ordination between both services and other industries players would further accelerate the services sector development. In this circumstance, the demand for services and products from other industries would be increased effectively in tandem.

Meanwhile, the services sector also can be internationalized more conveniently as compared to other brick-and-mortar businesses. Again, in view of its intangible nature, many physical resources requirement can be eliminated when venturing abroad. For example, to transport of raw materials and heavy equipments, it is not necessitated to start off a service business in another country. Services can be exported by using franchising system, licensing a brand name and copyrighting of information. All these business models can be done efficiently in a shorter period of time for service providers to internationalize their businesses beyond domestic borders.

Another potential opportunity of the services sector is the availability of the marketplace. Since the emergence of the Internet system, various types of e-services have been created and innovated from the fundamental of services. One successful example is eBay, an online and real-time auction service that replicate the traditional auction service. Service business has an advantage in permeating effectively into the marketplace. The easiness to transform and digitize most of the services to some degree into e-services contributes to this effectiveness. That in turn would enable efficient dissemination and transmission of services via the Internet system. Today, various services industry such as banking, telecommunication, music and entertainment has already exploiting successfully into the marketplace. As the advancement of the Internet system continues to develop, the e-services sub sector is expected to grow further.

## **6. The Challenges**

The adoption of WTO trade rules in services in the midst of globalization is posing various challenges to many developing countries particularly for Malaysia (Lim, 2006). Lim discussed three main challenges that needed to be addressed are:

- Competition
- Productivity
- Efficiency

The continual global liberalization of services is pushing Malaysia's services sector to compete dynamically with the global players. Services must be of high quality, at world standards, and expandable globally. This issue should not be neglected as the numerous services from the developed countries have already 'globalized' the world market. And many developing countries are making extra effort in improving their respective positions. This will continue to pose greater competition for the laggard.

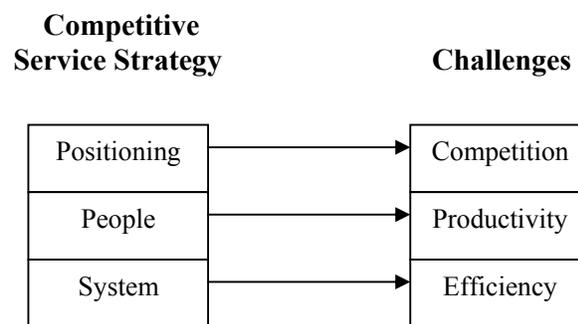
The next critical challenge is productivity, which relate directly to people. Services are habitually produced and delivered by employees (Rust et al., 1996); (Hoffman et al., 1997); (Lovelock et al., 2001); (Zeithaml et al., 2003). Therefore, human resource development is the key of concern for any countries in developing their services sector. The success of a service sector is significantly in harness with high quality and competent workers. In order to achieve that, a country must be able to develop, train, and produce productive human resource ad infinitum. If failed to do so, the service sector would experience obstacles in expanding to the domestic market as well as penetrating into the international market.

Lastly, service as a process (Rust et al., 1996); (Hoffman et al., 1997); (Lovelock et al., 2001); (Zeithaml et al., 2003) that required a high degree of efficiency in both operations and management system for meeting certain standard. Many world class service organizations are so successful today because of their efficacy in process and system. For instance, FedEx is one of

the leading courier service companies that hinges on efficiency in attaining their global success.

## 7. Building a Competitive Edge

To survive in the dynamic service environment, there is a core and necessity for Malaysia to be able to sustain its growth and continuous development with the presence of all the global players. The global services environment indeed provided a plenty of opportunities for a country to tap into. However, prior to that, the first encounter is to cope with those challenges as discussed earlier and build a competitive edge that can sustain the industry. To achieve that three competitive service strategy is recommended to counter the challenges discussed earlier. Refer figure 1.



**Figure 1: Three Competitive Service Strategy**

### i. Positioning

The services industry is a diverse industry that capable to attract many players who will then generate continuous intense competition. Therefore, in order to compete effectively and retain the customers in the long-term, positioning of service need to be established in the customers' mind (Trout, 1997). According to James Heskett (1984), "*positioning enabled many successful service firms separate themselves from "the pack" to achieve a distinctive position in relation to their competition. They differentiate themselves....by altering typical characteristics of their respective industries to their competitive advantage*". Hence, positioning is essential for Malaysia in crafting niches on its diverse services industries in the global markets.

### ii. People

Services industry, which required human resource as the main input for output hinged on employees productivity for success. However, service productivity always needs to be compromised with quality delivered by people (Zeithaml et al., 2003). People are the underlying success resource for the services sector particularly in attaining high productivity and quality of services production. Therefore, continuous training and development of human resource would help produce more high competency and knowledgeable workers that can

support the services industry as employees to attain high productivity. In the longer term, it would shape the Malaysia services sector competitiveness at the global stage.

### iii. System

Efficiency is essential for service process to attain high service quality and standard (Lovelock et al., 2005). Service process must encompass a smooth flow of processes that enables effective production and consumption simultaneously. When a service process can be systematized efficiently it would become a competitive advantage because it can avoid duplication by rivals. Hence, in order to achieve sustainable competitive edge, services player should give top priority in system design in their services process. A system can also be enhanced further by applying information technology support which can attain another higher level of efficiency.

## 8. Conclusion

In today's borderless business environment, the services sector is becoming more and more critical in driving the global economic growth. Most governments are aligning their trade policy towards the dynamism of the services sector for wealth building. This has led to intense competition among nations. Hence, in order to sustain its services economy the governments must be able to identify what are the challenges and threats that anticipated to generate problem. At the same time, vigilant steps must be taken to possess potentially long-term competitiveness, growth and success.

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### Leading exporters and importers in world trade in commercial services, 2005

(Billion dollars and percentage)

Rank	Exporters	Value	Share	Annual percentage change	Rank	Importers	Value	Share	Annual percentage change
1	United States	354.0	14.7	10	1	United States	281.2	12.0	9
2	United Kingdom	188.7	7.8	2	2	Germany	201.4	8.6	4
3	Germany	148.5	6.2	10	3	United Kingdom	154.1	6.6	6
4	France	115.0	4.8	6	4	Japan	132.6	5.6	2
5	Japan	107.9	4.5	14	5	France	104.9	4.5	8
6	Italy	93.5	3.9	13	6	Italy	92.4	3.9	15
7	Spain	92.7	3.8	9	7	China	83.2	3.5	16
8	Netherlands	76.7	3.2	7	8	Netherlands	70.9	3.0	3
9	China	73.9	3.1	19	9	Ireland	66.1	2.8	3
10	Hong Kong, China	62.2	2.6	13	10	Spain	65.2	2.8	11
11	India	56.1	2.3	...	11	Canada	64.2	2.7	10
12	Ireland	53.3	2.2	2	12	Korea, Republic of	57.7	2.5	17
13	Belgium	53.3	2.2	5	13	India	52.2	2.2	...
14	Austria	52.6	2.2	9	14	Belgium	50.3	2.1	4
15	Canada	52.2	2.2	9	15	Austria	48.5	2.1	5
16	Singapore	45.1	1.9	10	16	Singapore	44.0	1.9	9
17	Switzerland	44.0	1.8	7	17	Russian Federation	38.5	1.6	18
18	Korea, Republic of	43.9	1.8	8	18	Denmark	36.0	1.5	...
19	Sweden	42.8	1.8	12	19	Sweden	35.0	1.5	6
20	Denmark	41.2	1.7	...	20	Hong Kong, China	32.4	1.4	5
21	Luxembourg	40.0	1.7	21	21	Taipei, Chinese	31.4	1.3	5
22	Greece	34.1	1.4	3	22	Australia	28.9	1.2	9
23	Norway	28.5	1.2	12	23	Thailand	27.5	1.2	20
24	Australia	27.7	1.1	8	24	Norway	27.2	1.2	19
25	Taipei, Chinese	25.6	1.1	0	25	Switzerland	25.2	1.1	6
26	Turkey	25.6	1.1	13	26	Luxembourg	24.8	1.1	20
27	Russian Federation	24.3	1.0	21	27	Indonesia a	23.2	1.0	...
28	Thailand	20.5	0.8	8	28	Brazil	22.3	0.9	38
29	Malaysia	19.0	0.8	14	29	Malaysia	21.6	0.9	15
30	Israel	16.8	0.7	12	30	Mexico	20.9	0.9	9
31	Poland	16.1	0.7	20	31	United Arab Emirates a	16.2	0.7	...
32	Mexico	16.0	0.7	15	32	Greece	14.3	0.6	5
33	Egypt	15.0	0.6	6	33	Saudi Arabia	14.2	0.6	29
34	Portugal	14.9	0.6	2	34	Poland	14.0	0.6	14
35	Brazil	14.9	0.6	28	35	Israel	13.4	0.6	6
36	Hungary	12.3	0.5	15	36	Finland	12.8	0.5	6
37	Czech Republic	10.7	0.4	11	37	Hungary	11.6	0.5	11
38	Lebanon a	10.3	0.4	...	38	South Africa	11.5	0.5	15
39	Croatia a	10.3	0.4	...	39	Turkey	10.7	0.5	16
40	Finland	10.1	0.4	3	40	Portugal	9.9	0.4	4
	Total of above	2190.0	90.7	-		Total of above	2090.0	89.1	-
	<b>World</b>	<b>2415.0</b>	<b>100.0</b>	<b>10</b>		<b>World</b>	<b>2345.0</b>	<b>100.0</b>	<b>10</b>

a: Secretariat estimate.

Note: Figures for a number of countries and territories have been estimated by the Secretariat. Annual percentage changes and rankings are affected by continuity breaks in the series for a large number of economies, and by limitations in cross-country comparability. See the Technical Notes. For annual data 1995-05, see Appendix Tables A8 and A9.

Source: [http://www.wto.org/english/res\\_e/statis\\_e/its2006\\_e/its06\\_bysubject\\_e.htm](http://www.wto.org/english/res_e/statis_e/its2006_e/its06_bysubject_e.htm)