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**New Sources of Growth in  
Malaysia's Service Sector:  
Prospects and Challenges in  
Travel Services**

**Tham Siew Yean**

Institut Kajian Malaysia dan Antarabangsa (IKMAS)  
Universiti Kebangsaan Malaysia  
Bangi



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### **Abstract**

In Malaysia, the service sector has grown over time. It contributed towards 61% of the GDP and 58% of total employment in 2005. Due to its growing importance, the Third Industrial Master Plan has identified eight service sub-sectors as new sources of growth for the Malaysian economy. This paper assesses the prospects and challenges facing travel services in terms of its export potential. The main findings show that trade in travel services has been growing for Malaysia and other developing countries as well as developed countries. However, the ability to compete will depend on whether the government can balance liberalization with an appropriate level of regulation for this sector.

### **Biographical Sketch**

**Tham Siew Yean** obtained her PhD from the University of Rochester, USA. She was appointed Professor of International Trade at Universiti Kebangsaan Malaysia in 2003 and is currently the Deputy Director of the University's Institute of Malaysian and International Studies (IKMAS). She has published extensively on issues pertaining to foreign direct investment, productivity, regional trade and regional groupings. Her latest publication is co-written with Ragayah H. Mat Zin, "Moving Toward High-Tech Industrialization: The Case of Malaysia," in *The East Asian High-Tech Drive*, edited by Yun-Peng Chu and Hal Hill (Cheltenham: Edward Elgar, 2006).

*Tham Siew Yean*  
*Institute of Malaysian and International Studies (IKMAS)*  
*Universiti Kebangsaan Malaysia*  
*43600 Bangi*  
*Selangor*  
*Malaysia*

*E-mail: [tham@pkriscc.ekm.my](mailto:tham@pkriscc.ekm.my)*\* Paper prepared for presentation at the Conference on Malaysian Economic Update: "The Malaysian Economy: Developments and Challenges Ahead", to be held at the Institute of Southeast Asian Studies (ISEAS), Singapore, 25-26 January 2007

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## **New Sources of Growth in Malaysia's Service Sector: Prospects and Challenges in Travel Services**

### **1. Introduction**

Services currently account for more than two thirds of the world's Gross Domestic Product (GDP) while trade in commercial services grew at an average annual rate of growth of 6.6% per annum from 1980 to 2004 with its share in total world trade increasing by three percentage points to 19% in 2004 (WTO 2006, 7). The robust growth in services was accompanied by a shift in the structure of services traded. In 1995, travel and transport contributed 34% and 25% respectively, towards world exports of commercial services while other commercial services contributed 41% (WTO 2006, 39). By 2004, the share of world exports accruing to other commercial services has grown to 46% while the shares of travel and transport have correspondingly fallen to 30% and 24%, respectively.

In Malaysia, the service sector has grown considerably over time. In 1980, it contributed 44.7% towards GDP and 46.0% of total employment of the country. By 2005, its contribution has grown to 60.8% of the GDP and 58.0% of total employment in the country (Malaysia 2006a, 523). Its importance for the country in terms of complimenting the growth in manufacturing was recognized in the Second Industrial Master Plan (IMP2: 1996-2005) that first introduced the idea of developing supporting services under its Manufacturing ++, or the cluster-based development strategy. However, no specific service sectors were targeted for development.

In contrast, the Third Industrial Master Plan (IMP3: 2006-2020) not only reiterates the importance of the service sector as an important intermediary for supporting the development of businesses and trade in all sectors, it further targeted eight service sub-sectors for development. These are business and professional services, distributive trade, construction, education and training, healthcare services, tourism services, ICT services and logistics. The contribution of these sub-sectors as new sources of growth for the country includes their potential to provide linkages and spillovers between sectors. Nevertheless, given the limited size of the domestic

economy and the importance of trade to the country, the potential of these sectors to be new sources of growth for the country is inevitably dependent on their export potential. It is therefore timely to assess the prospects and challenges of the targeted sectors in terms of their export potential. Specifically, the first objective of this paper is to review the development of the selected sectors and the policy initiatives that have been undertaken to develop their export potential. Second, the paper also aims to identify the prospects and key challenges encountered in the development of these sub-sectors and to provide some policy suggestions for overcoming these challenges.

The outline of the paper is as follows: following the introduction, the overall trade performance of the service sector is reviewed in Section 2 to select the sub-sectors for further analysis in subsequent sections. Section 3 provides an overview of the development of these sectors, including the main policy measures that have been undertaken to develop their export potential. Future prospects and key challenges faced by these sectors in developing their export potential are discussed in Section 4. Some policy suggestions as well as a summary of the main findings of the paper are presented in Section 5.

## **2. Overall Trade Performance of Services**

Based on global trend, the rate of growth of global trade in services is higher than the rate of growth in goods in the last two decades. In 2004, the estimated total value of trade in services was about US\$4.36 trillion. However, the global distribution of trade in services is quite skewed with almost three-quarters of the world trade in services contributed by developed countries while developing countries account for a quarter only (Prabir De 2006, 3). Moreover, while developed countries are net exporters of services trade, developing countries are generally net importers.

In Malaysia, the services account of the balance of payments<sup>1</sup> continued to be in deficit for the period 1996-2004 (Table 1). This deficit can be attributed to the outflows of freight and insurance and the repatriation of profits and transfers as the economy is heavily dependent on merchandise trade and foreign direct investment (WTO 2005, 14). Several key features of the trade in services can be observed from Table 1. First, a switch in the relative importance in the types of services exported

can be observed through the years. While the export of other services was larger than the export of travel services<sup>ii</sup> from 1996 to 2000, this pattern was reversed from 2001 to 2004. However, the import of other services exceeded the import of travel services for the whole period shown. Second, while transportation and other services are generally in deficit, the converse holds for travel services and the surplus generated by this sector offsets the deficit in the other sub-sectors. In 2003, the decline in export revenue from travel services due to the negative impact of the outbreak of Severe Acute Respiratory Syndrome (SARS) and geopolitical uncertainties on tourist arrivals in the country reduced the net surplus of this sector and increased the overall deficit in services. Improving the exports of this sector will therefore not only help to diversify the sources of export revenue for the country but it will also contribute towards alleviating the chronic deficit in the services account.

The growing importance in the export of travel services in Malaysia is similar to the pattern experienced in several developing countries in East Asia. China emerged as the largest exporter of travel services from developing East Asia, with an export value of US\$26 billion in 2004 (Table 2), contributing over one per cent of global exports of travel services. Within the ASEAN-5, Philippines, Malaysia and Thailand a share of travel services to total service exports that exceeded 40 since 2001. These developing countries, including Malaysia are deemed to have a comparative advantage in travel services based on the revealed comparative advantage calculated for these countries (Prabir De 2006, 26). The analysis in the following sections therefore only focuses on travel services and its components, health and education.

### **3. Overview of Sub-Sectors**

#### **3.1 Tourism**

Tourism is one of the world's most important industries, employing 74.2 million persons worldwide or 2.8% of the total world employment. It also accounts for approximately 3.8% of total world output in 2005 (WTTC 2005). Taking into consideration both direct and indirect effects, the industry is estimated to employ some 221 million persons or 8.3% of total world employment and contribute 10.6% of total world output.

In Malaysia, the Ministry of Culture, Arts and Tourism (MOCAT) was responsible for the formulation and implementation of policies, licensing and enforcement aspects of the tourism industry since 1992. Tourism was identified in the Sixth Malaysia Plan as an important industry that can create the new sources of growth required for socio-economic development and increased opportunities for Bumiputera<sup>iii</sup> ownership, participation and entrepreneurship (Malaysia 1991, 239). Subsequently, the National Tourism Policy was launched, covering the period 1991-2000 to further develop this sector. Sarawak and Sabah drafted their own respective tourism master plan in 1993 and 1996. In 2004, the Ministry of Tourism was officially established with the break-up of the MOCAT into the Ministry of Tourism and the Ministry of Culture, Arts and Heritage respectively so that the former can focus on the tourism industry as a source of growth in line with national policies.

The industry is governed by the Tourism Industry Act 1992 that provides for the licensing and regulation of tourism enterprises and their related matters. The need for greater emphasis on marketing and promotion was recognised with the establishment of the Malaysia Tourism Promotion Board Act 1992 that redefined the name, role and functions of the former Tourism Development Corporation to enable the Board to focus on these issues. Sabah and Sarawak have also established their respective state promotion boards. Since environment is a key asset for the tourism sector, the environmental aspects of tourism development in the country are managed by several Acts, namely: the National Parks Act of 1980, the Fisheries Act, the National Forestry Act, 1984, and the Environmental Quality Order 1987. The National Conservation Strategy deals with issues pertaining to the holistic development of the resource of the country.

Incentives are also given to encourage the development of this sector. The Promotion of Investment Act of 1986 promotes the establishment and development of industrial, agricultural and other commercial enterprises in Malaysia through tax incentives. For the tourism sector, these incentives are available to hotel accommodation projects and other tourist projects. They include pioneer status, investment tax allowances, industrial building allowances, duty exemptions, income tax exemptions, and reductions in service tax. For example, companies building



luxury ships are eligible to apply for pioneer status. In addition, sector specific incentives were also granted (See Appendix 1 for the list). It was reported that during the IMP2 period, 360 hotel projects were granted tax incentives, 30 tourist projects were also granted incentives and 180 budget hotels were also given tax incentives to encourage domestic tourism (Malaysia 2006b, 559).

Various tourism products were introduced over the years, such as eco-tourism, agro-tourism home-stay programmes, cultural and heritage tourism, thematic events, meetings, incentives, conventions and exhibitions, sports and recreation tourism, education and health tourism. Malaysia My Second Home was also introduced to encourage foreigners, their spouses and their dependents to select Malaysia as their second home.

The number of tourists arrival more than doubled from 7.5 million in 1995 to 16.4 million in 2005 (Table 3). Total tourists receipts have grown from RM9.2 billion to RM31.0 billion over the same duration. Employment in this sector has grown from 67,214 in 1995 to 451,000 in 2005. ASEAN, the traditional source of tourist visitors for Malaysia remained the largest country of origin with a share of 77% in 2005 while the share of Japanese tourists have declined from 4.4% in 1995 to 1.9% in 2005. On the other hand, tourists from China and West Asia have increased in numbers (Table 3). The importance of this sector as a source of foreign exchange earnings can be seen in the increase in the **net** contribution by tourism from RM11.2 billion in 2000 to RM18.1 billion in 2005 (Malaysia 2006a, 193). Moreover, spillovers from this sector to other sectors such as hotels can be seen in the increase in the number of hotels and hotel rooms as well as the average occupancy rate over time (Table 3). The composition of tourist expenditure also reveals the contribution of this sector to the activities of other sectors, such as retail, restaurants, transportation, entertainment and others (Table 4).

Following the relative success of the Visit Thailand Year in 1987, Malaysia also launched its own Visit Malaysia Year (VMY) campaigns. In 2007, Malaysia launched its Third VMY campaign, after two previous campaigns in 1990 and 1994. The current VMY campaign has targeted more than 20 million visitors and a revenue of more than RM44 million. By 2020, tourists arrivals are expected to reach 24.6

million while tourists receipts are expected to reach RM59.4 billion (Malaysia 2006b, 560).

The General Agreement on Trade in Services (GATS) defines trade in services as the supply of a services in any of the four ways: Mode 1, cross border supply or the delivery of services across borders as, for example, through telecommunications; Mode 2, consumption abroad which occurs when consumers consume services while outside their country; Mode 3, commercial presence which occurs when the service supplier establishes a commercial presence in another country through branches or subsidiaries; and Mode 4, the movement of natural persons or when an individual has moved temporarily into the territory of the consumer in the context of the service supply, whether as an employee or in self-employment (Table 5). Malaysia's current commitment in GATS in tourism and travel related services has limited foreign presence to locally incorporated joint-venture corporations with Malaysian individuals or Malaysian-controlled corporations or both and aggregate foreign shareholdings of 30% or less. It is unbound for Modes 1 and 4 while there are no restrictions for Mode 2. Similar commitments are also found in the Malaysia-Japan Economic Partnership Agreement (MJEPA). However unlike these commitments, existing foreign ownership of tourism related businesses are allowed up to 49% (Malaysia 2006b, 575).

### **3.2 Health Tourism**

Medical tourists seek medical care beyond their home countries for four main reasons (Hutchinson 2005, 1). First, in some regions of the world, state-of-the-art medical facilities are hard to come by, if they exist at all. Second, in other countries, the public health-care system is so overburdened that it can take years to get needed care. In Britain and Canada, for instance, the waiting period for a hip replacement can be a year or more, while in Bangkok or Bangalore, a patient can be in the operating room the morning after getting off a plane. Third, cost is the critical factor for many. Table 6 indicates the differences in costs for some medical procedures in Malaysia, Singapore, Thailand and Hong Kong. Fourth, for others, becoming a medical tourist is a chance to combine a tropical vacation with elective or plastic surgery.

Countries that actively promote medical tourism include Cuba, Costa Rica, Hungary, India, Israel, Jordan, Lithuania, Malaysia, Thailand, Belgium, Poland and Singapore (CBC News on Line, 2004, 1). In Malaysia, the growth of private commercial healthcare has led to the internationalisation of Malaysia's healthcare system by combining tourism with health. Private investment led predominantly by large corporations and state economic development corporations have invested heavily in private healthcare institutions thereby contributing to the proliferation of these institutions over time (Barraclough 1997, 647). This development is in line with the government's policy of sharing the provision of healthcare with the private sector as indicated in the Second Outline Perspective Plan. Consequently, private healthcare expanded rapidly from 50 institutions with 1,171 beds in 1980 to over 218 private medical centres with 10,542 beds in 2004.

In 1998, the government initiated the promotion of health tourism with the establishment of the National Committee for the Promotion of Medical and Health Tourism (Chua 2002, 1). It was subsequently renamed as the National Committee for the Promotion of Health Tourism. This committee is chaired by the Director General of Health and the core team comprises the Ministry of Health; Ministry of Culture, Arts and Tourism; Tourism Malaysia (MATTA); Ministry of International Trade and Industry (MITI); Malaysian External Trade Development Corporation (MATRADE); Association of Private Hospitals of Malaysia (APHM); and the Malaysian Association of Tour and Travel Agents (MATTA) as well as other stakeholders from the healthcare and travel industries. Tax exemptions on the value of increased exports of healthcare services provided from Malaysia to foreign clients as well as double deduction for tourism industry and a matching market development grant are the major incentives provided for the development of this sector.

The Private Hospitals Act 1971, Medical Act 1971 and Dental Act 1971 regulate professional practices while the Private Healthcare and Services Act 1998 regulates healthcare facilities and services. However, the lack of data has hampered the formulation of policies since there are no statutory provisions requiring private hospitals and doctors to furnish data to the Ministry of Health (Mahani et al 2005, 17).

As of 2006, the Ministry of Health (MOH) has appointed 35 private hospitals in the whole of Malaysia to be promoted as key players in the health tourism industry. In 2002, foreign patients spent a total of RM150 million for healthcare and treatment services in Malaysia while the number of foreign patients increased from 78,318 in 2000 to 191,900 in 2002 (Malaysia 2003, 362). The MOH together with the Ministry of Tourism has estimated the foreign patient market to be worth RM154 million in 2004 and it is expected contribute approximately RM2 billion a year in foreign exchange earnings by 2010. Markets that are targeted for health tourism are Indonesia, Bangladesh, Vietnam and some of the Middle Eastern countries. Currently, 72% of the foreign patient market is estimated to be from Indonesia while Singapore contributes another 10% (SERI November 2004, 2). Common treatments are in cardiology, orthopaedics, obstetrics, gynaecology, nephrology and urology as well as ophthalmology.

Malaysia's commitments in GATS have no restrictions for Modes 1 and 2.<sup>iv</sup> Foreign ownership is limited to locally incorporated joint-venture companies with Malaysian individuals or Malaysian-controlled corporations or both and aggregate foreign shareholding in the joint-venture corporation is also limited to 30 and economic needs test. They are only allowed to operate hospitals with more than 100 beds only in the case of GATS and 70 beds in the case of the MJEPA. The establishments of general practitioner (GP) clinics, dental clinics, maternity clinics and other types of specialized clinics have not been given approval while medical services can only be supplied by a natural person. Mode 4 is unbound.

The largest foreign player in the country is Parkway Holdings Singapore. Parkway has a total of nine hospitals in Malaysia. Seven of these hospitals in Malaysia were acquired in September 2005 when the group acquired approximately 30% in Pantai Berhad, one of the leading private healthcare service providers in Malaysia (Tham and Mahani 2006, 25). Parkway also has three hospitals in Singapore, one in Brunei and another in India. It has therefore one of the largest network of hospitals and healthcare services in the region. Besides hospitals, the group's healthcare network also includes providers of primary healthcare services, radiology services, laboratory services and contract research services. Apart from Parkway, Singaporean presence is also found in Health Management International

Ltd. (HMI)'s share in Mahkota Medical Centre and the United Medicorp Pte Ltd in The Southern Hospital. The government of Singapore has also invested in Sunway City Berhad, the ultimate holding company of Sunway Medical Centre. Singaporean investment in Malaysian private healthcare is primarily cost-motivated as the foreign patients who cannot afford the relatively higher cost in Singapore can be redirected to affiliated hospitals in Malaysia thereby maximizing the group's profits in the region. Foreign investment for the major players in Singapore thus enables them to offer a broader range of quality and cost effective health care. Apart from Singaporean investment, the establishment of the Columbia Medical Centre (CMC) in Seremban in 1999 marked the entry of American investment private medical care in the country. CMC is held by Columbia Pacific Healthcare Sdn. Bhd. that also has healthcare facilities in Vietnam and India.

### ***3.3 Cross-Border Higher Education***

Under GATS, the education sector is divided into five sub-sectors: primary, secondary, higher, adult, and other. The paper will however focus on cross border tertiary education given the rapid changes and potential size of this market at both the global and national level.

Private institutions started to offer foreign-linked programs leading to both academic degrees and professional qualifications even before the 1980s (Lee 1999, 8). Many innovative programs emerged with the entry of private providers as these institutions could not confer degrees nor could their foreign partners establish branch campuses at that time. Consequently, twinning programs, credit transfer programs, advanced standing programs, external degree programs, distance learning programs and joint programs mushroomed in the country. Subsequently, the opening of tertiary education to the private sector was facilitated with the enactment of the Private Higher Educational Institutional Act in 1996. This enabled the private sector to establish degree-granting institutions as well as foreign universities to set up branch campuses in the country (Malaysia 1996, 337). The development of private IHEs is

promoted, monitored and regulated by this Act while the National Accreditation Board Act governs matters pertaining to standards and quality. Franchisor universities, be they local or foreign, are responsible for monitoring the quality of the programs as well as ensuring adequate teaching learning facilities in the private IHEs that are running their franchise programs.

The institutions that govern private tertiary education in the country are shown in Figure 1. The Private Higher Educational Institutions Act stipulated that private IHEs are required to be managed by locally incorporated companies as it is believed that this would provide these IHEs with the financial backing to offer better facilities, better campuses as well as a better quality of education (Tan 2002, 99). In 2004, the Ministry of Higher Education was established to regulate tertiary education. Professional bodies such as for the legal, accountancy and architectural profession also assist the government to monitor and guide the development of their respective professions through joint technical accreditation committees.

Tax incentives provided by the government include double deduction for promotion of export of higher education, and tax exemptions on the value of increased exports of services. Market development grants are also provided in the form of a matching grant to assist small and medium enterprises (SMEs) to undertake activities for the development of export markets, including participation in international trade missions, specialised selling missions, international trade fairs and international trade and industry related conferences, as well as participation in meetings for negotiating mutual recognition agreements (MRAs). A brand promotion grant of up to a maximum RM1 million is also made available to the service sector.

The opening up of tertiary education to the private sector led to a jump in the number of private providers. It grew from 156 in 1992 to 354 in 1996 (Ministry of Higher Education (MOHE) 2006, 23). In 1997, the government further liberalized by allowing selected private colleges to confer their own degrees. Subsequently, the industry grew further to a peak of 632 in 2000 before consolidating to 532 in 2005 (Malaysia 2006b, 552). There are currently 33 private institutions of higher learning with university or university college status and 526 colleges (Mustapa Mohamed 2006, 4). In addition, four branch campuses are also conducting programs of their

own. The total number of students enrolled in 2006 in 559 of these private institutions of higher learning (IHEs) amount to 260,000, or about 40% of the total number of students in all the tertiary education in Malaysia. Student enrolment in private institutions has grown 17 fold in 21 years compared to 15,000 estimated in 1985, partly reflecting the degree of excess domestic demand in the country and the competitive nature of some of the twinning programs as a student can save between US\$4,000 to US\$10,000 by enrolling in a twinning program (Lee 1999, 7, 30).

The number of foreign students studying in Malaysia (in both public and private institutes) has also increased from 3,508 in 1999 to 30,407 in 2003 (UNESCO Institute of Statistics). Although public universities are also internationalising their post-graduate programs, the majority of the foreign students are studying in private institutions of higher learning. In 2002, it was reported that 82% of the 17,979 foreign students were registered in private IHEs and only 18% were in public IHEs (Malaysia 2003, 361). The number of foreign students has subsequently grown to 44,709 in 2005 (Malaysia 2006c, iv). This increase can be attributed to the students' preference for programs that are conducted in English, competitive pricing in terms of the fees charged as well as the relatively low cost of living in Malaysia, the options to transfer their studies to the partner universities or the transnational links affiliated with the local counterparts (Tan 2002, 184). In addition, private IHEs were responsive to market demand and offered course such as information technology and hospitality courses that were pertinent to the human resource needs of the countries in the region. Externally, there has been a progressive diversion of Middle Eastern students from the USA since the 1970s and even more so after 9/11 (Sedgwick, 2004, 2). Domestic and foreign providers in the Middle East as well as emerging new exporters such as Singapore, Malaysia, India and China have benefited from this diversion.

The increase in the number of foreign students in the country has increased the export revenue from this sector as exports have increased from RM276.0 million in 2000 to RM393.1 million in 2005 (Malaysia 2006b, 525). Nevertheless, this increase is smaller than the increase in import of education services as imports increased from RM2,005.0 million to RM3,599.2 million for the same duration, thereby increasing the deficit in education services from RM1,729.0 million to RM3,206.1 million. The

Ninth Malaysia Plan has estimated that this sector will contribute RM900 million in foreign exchange earnings by 2010 (Malaysia 2006a, 203).

Although educational services were not included in Malaysia's commitments under GATS, tertiary higher education services were offered in the MJEP. It is, however, unbound for Modes 1 except for franchise and twinning arrangements, unbound except for students moving abroad for Mode 2 and unbound also for Mode 4, with exceptions.<sup>v</sup> In Mode 3, commercial presence is limited through joint-venture with foreign equity not exceeding 49% and subject to economic needs test.

#### **4. Prospects and Challenges**

##### **4.1 Prospects**

Global demand is expected to increase in each of these sectors. For example, international arrivals have been forecasted to reach 1.0 billion by 2010, of which 80% are intra-regional while the rest are long-haul (Malaysia 2006a, 199). According to the World Tourism Council, the growth rate is forecasted to grow at 4.1% a year through 2020. Increasing air access with the development of low cost carriers will contribute towards the increase in the number of tourists in the world while the rise of the middle-income group in East Asia will foster greater consumption of travel services.

Global health expenditure as a proportion of GDP has grown significantly over the last two decades due to rising income, ageing population, and the rapid growth in surgical procedures such as coronary bypasses and angioplasty procedures, hip and knee replacements and plastic surgery. The growing adoption of new and sophisticated medical diagnostic technologies has also contributed towards this trend. Health challenges such as HIV/Aids, tuberculosis, eye diseases, nutritional and water-related diseases and women's health are other opportunities for increasing trade in health services (Western Australian Technology and Industry Advisory Council 2004, 3). Tourism Research and Marketing (TRAM) has forecasted that global medical tourism will grow to 40 million trips, or 4% of global tourism volume by 2010.



The world's demand for tertiary education worldwide is projected to grow from 100 million student places in 2000 to around 260 million places in 2025, based on projections of population growth (IDP, 2002 as cited in Calderon and Tangas 2004, 10). Increasing student, program and institution mobility have led to increased cross border provision involving new types of education providers, new modes of delivery, new programs and qualifications, new network and partnership models with great potential for aspiring exporters of education services including Malaysia to tap into this huge demand for tertiary education.

Based on the projected global demand, the prospects of these sectors are certainly bright. The ability to capture the projected increase in demand, however, depends on Malaysia's capacity to compete with countries that are also targeting the same sectors and markets as well as the ability to overcome the challenges as outlined in the following section.

#### **4.2 Challenges**

Developing countries, including Malaysia are trying to capture more of the global trade in services, especially in labour-intensive services and also in a growing number of higher-skilled services. Within ASEAN alone, Malaysia faces severe competition in all three areas discussed in this paper. Malaysia is currently the leading country by destination according to the visitors arrival for the period 1995-2004, followed by Thailand and Singapore, most of the tourists are from ASEAN (Table 7). However, 74% of the tourist's arrival in Malaysia is from ASEAN as opposed to the 76% and 67% of tourists who are from non-ASEAN countries visiting Thailand and Singapore, respectively. Malaysia is clearly lagging behind in terms of the non-ASEAN market. The newer member countries of ASEAN are also beginning to attract tourists as can be seen from the same Table.

Within ASEAN, Malaysia, Singapore and Thailand have all focused on health tourism as a potential export sector.<sup>vi</sup> The Tourism Authority of Thailand organises a health travel mart that brings in tour operators from Asia and Europe plus journalists to see the best of Thailand's hospitals. Medical tours are also heavily promoted in the website of the TAT. In 2003, the Singapore government launched

SingaporeMedicine, a multi-agency initiative aimed at developing Singapore into one of Asia's leading destinations for healthcare services by partnering the government with the private sector. Table 8 appears to indicate that Thailand is currently leading the exports of this sector, followed by Singapore and Malaysia.<sup>vii</sup>

UNESCO data shows Malaysia leading in terms of the number of international students coming into the ASEAN-4 countries (Table 9). Thailand having made commitments in GATS has liberalised their sector by introducing twinning and double degree programmes with foreign universities (Arief 2004, 4). Singapore is also targeting to be the premier education hub of the region and has identified education as one of the key service sectors to be promoted since 1986. The Economic Development of Singapore then embarked on a plan to attract at least 10 world class institutions to Singapore within ten years (Duhamel 2004 40). John Hopkins Singapore was set up in 1998, followed by other international providers such as INSEAD, Chicago Graduate School of Business, Shanghai Jiao Tong University, Indian Institute of Management Bangalore, ESSEC and the University of New South Wales (Singapore Education undated). The government has also established an Education services division under the Singapore Tourism Board in its drive to position Singapore as the premier education hub for the region and to increase the number of international students for basic and higher education from 60,000 in 2003 to 150,000 by 2012. Singapore Education, a multi-agency initiative was launched in 2003/04 to spearhead its initiatives in this sector.

Enhancing the export competitiveness of travel services faces two main challenges: balancing liberalisation with an appropriate level of regulation. The nature of barriers to services differs from barriers to goods. Since services are often delivered face to face and the transaction typically occurs behind the border, the relevant trade restrictions are behind-the-door, non-price regulatory restrictions that do not necessarily apply to foreign service suppliers alone (Dee, 2004, 3). For services, there are two types of trade restrictions, namely restrictions on market access and derogations from national treatment. The former refers to measures that restrict competition and activity without discriminating between domestic and foreign suppliers while the latter refers to measures that treat foreigners less favourably than domestic service providers. It should be noted that measures that restrict trade in

services may be part of a broader domestic regulatory regime that is designed to address market failures or to meet legitimate social policy objectives. Hence not all measures that restrict trade are protective in nature, especially in health and education where prudential measures such as quality assurance and accreditation are essential to protect the interests of the consumer and the integrity of the respective sector.

While there are sector specific regulatory measures, some common regulatory measures can be found for tourism and its health and education components. The most common regulatory restriction that can affect Mode 2 is visa requirement while for Mode 4, work permits and recognition of the qualifications/accreditation of the foreign professional and language requirements are the most common. In the health sector, specific requirements such as the absence of a local specialist who qualifies for the job before the employer can offer the job to foreign specialists and the minimum duration of five years of post specialist experience in a recognised hospital are stipulated for hiring purposes. In the education sector, spouses of international students are restricted in terms of working in the country.

For Mode 3, the most common restriction is the limitation on foreign equity. In Malaysia, in general, foreign equity is restricted to 30% based on the New Economic Policy (NEP) requirements. Foreign investment in non-manufacturing activities including services, have to seek investment approval from the Foreign Investment Committee (FIC), which was established in 1974 to ensure the fulfillment of the NEP goals. However, actual equity restrictions can vary from sector to sector as the equity constraints are waived or relaxed for some service sectors. For example, it has been relaxed to 49% in tourism related activities while the level of foreign ownership allowed in telecommunications firms was increased from 30% to 61% in 1998. Although it was stated at that time that foreign equity must be reduced to 49% after five years, but to date the government has not mandated foreign divestment from telecommunications holdings. Nevertheless, remaining equity restrictions can constitute a barrier to trade as it restricts services delivered via commercial presence. In the telecommunication sector, which is critical for trade in Mode 1 for tourism, telemedicine and e-learning, Dee found that the single biggest factor inhibiting both fixed line and cellular penetration is the remaining restriction on foreign equity participation in competitive carriers (Dee 2004, 49). Furthermore, loosening the

restrictions was found to increase fixed and penetration rates by around 10%. As noted in the IMP3, equity restrictions in foreign ownership of tourism related businesses have limited to some degree Malaysia's participation in the international tourism chain (Malaysia 2006b, 575).

## **5. Conclusion**

Services, from health to education to telecommunications and transport, are becoming the single largest sector in many economies, in terms of their contribution to employment and income. Some services such as financial, telecommunications, and education provide vital input for the production of other goods and services as well. Likewise, the service sector in Malaysia has grown and account for more than half of output and employment in the country and it is expected to grow further as the economy continues to move its development ladder.

Similarly, trade in services is also growing for both developed and developing countries. Nurturing the export potential of the service sector is important as it will help to diversify export products and assist in the reduction of the chronic deficit in trade in services. Tourism as a source of export revenue is not new as the country's export in this sector has been growing over the years and the net surplus has helped to offset the deficit in the other components of service trade. However, despite leading in terms of visitor's arrival in ASEAN, Malaysia continues to lag behind other leading competitive destinations in the region in terms of international tourism receipts from outside the ASEAN region. In the health and education sector, increasing private supply has led to an increase in export revenue. Nevertheless, within Southeast Asia alone, Malaysia faces severe competition from Thailand and Singapore. Thus while global and regional demand is expected to increase for tourism, medical and education services, there is also heightened competition.

The ability to compete will depend to a large extent as to whether the government can balance liberalisation with an appropriate level of regulation. Since barriers to trade in services lie predominantly in the regulations behind the border, liberalisation of services is primarily an act of domestic liberalisation. Concurrently, prudential needs have to be met with an adequate regulatory structure. Thus

determining the appropriate level of regulation is really important. A comprehensive approach towards liberalisation will therefore require the government to review its regulatory structure and quantify the impact of the existing regulations on the efficiency of these sectors as well as its costs. This will allow the government to assess the trade-off between cost and benefits in terms of gains in economic efficiency and to choose policy options based on national priorities. The first option can be to liberalise regulations that yield negative trade-offs as this will increase economic efficiency. The second is to consider alternative regulatory measures to substitute for measures that have legitimate social or national objectives but yield a negative trade-off. A third option is to consider policy sequencing that is liberalisation is postponed until the social objective has been met. For example, where the social objectives such as improving the shortage of medical personnel in the public sector due to the brain drain from the public to the private sector are deemed to be of paramount importance, then an appropriate sequencing of policy liberalisation can be used to address such issues (Arunanondchai and Fink 2005, 16). In such cases, liberalisation of Mode 3 may worsen the domestic brain drain from public to private and may be postponed until this shortage is addressed.

Since such an impact study clearly requires extensive data, the call for improving the data base for the service sector covered by the Department of Statistics in the IMP3, is timely. It will also provide the necessary research that is needed to enable the country to establish a roadmap for the liberalisation of its services sector, including the sequencing of liberalisation based on national priorities.

**Table 1. Malaysia's Trade in Services, 1996-2004 (US\$ Million)**

	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Exports</b>	<b>15136</b>	<b>15727</b>	<b>11517</b>	<b>11919</b>	<b>13941</b>	<b>14455</b>	<b>14878</b>	<b>13578</b>	<b>18006*</b>
<i>Travel (total)</i>	4477	3741	2381	3588	5011	6863	7118	5901	8198
• Health-related expenditure	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	4
• Education-related expenditure	n.a	n.a	n.a	45	73	65	68	80	113
• Other Personal Travel	n.a	n.a	n.a	3542	4939	6798	n.a	n.a	n.a
<i>Transport</i>	2822	2861	2271	2492	2802	2748	2855	2767	3163
<i>Other Services</i>	7837	9126	6865	5839	6127	4843	4905	4910	5159*
<b>Imports</b>	<b>17573</b>	<b>18297</b>	<b>13127</b>	<b>14735</b>	<b>16747</b>	<b>16657</b>	<b>16448</b>	<b>17532</b>	<b>19151*</b>
<i>Travel (total)</i>	2569	2590	1785	1973	2075	2614	2618	2846	3093
• Health-related expenditure	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	18
• Education-related expenditure	n.a	n.a	n.a	595	528	586	688	697	813
• Other Personal Travel*	n.a	n.a	n.a	1378	1547	2028	n.a	n.a	n.a
<i>Transport</i>	5433	5549	4088	4720	5890	5736	5892	6260	7842
<i>Other Services</i>	9571	10158	7254	8042	8783	8307	7938	8426	7963*
<b>Deficit</b>	<b>2437</b>	<b>2570</b>	<b>1610</b>	<b>2816</b>	<b>2806</b>	<b>2202</b>	<b>1570</b>	<b>3954</b>	<b>1145</b>

Source: IMF, 2005

\* WTO, 2005

**Table 2. Exports of Travel Services and Share of Travel Services in Country's Total Services Exports**

Country	2001		2004	
	Value (US \$ billion)	Share (%)	Value (US \$ billion)	Share (%)
China, P.R.: Mainland	17.8	53.4	25.7	41.3
Indonesia	5.3	95.9	4.8	27.2
Malaysia	6.9	47.5	8.2	48.9
Philippines	1.7	54.7	2.0	49.1
Singapore	4.6	15.9	n.a.	n.a.
Thailand	7.1	54.3	10.0	52.7

Source: Prabir De 2006

**Table 3. Selected Tourism Indicators, 1995, 2000, 2005 and 2010**

Indicator	1995	2000	2005	2010
Number of Tourist Arrivals (million)	7.5	10.2	16.4	24
By Country of Origin (%)				
ASEAN	73.5	70.4	76.8	65.0
China	1.4	4.2	3.8	6.1
Japan	4.4	4.5	1.9	2.2
Australia	1.8	2.3	1.5	2.7
United Kingdom	2.2	2.3	1.5	2.8
Taiwan	3.9	2.1	1.3	2.7
India	0.4	1.3	1.2	1.8
West Asia*	n.a.	0.5	1.0	2.7
Hong Kong SAR**	2.0	n.a.	n.a.	n.a.
USA**	1.3	n.a.	n.a.	n.a.
Others	9.1	12.4	11.0	14.0
Total Tourist Receipts <sup>1</sup> (RM billion)	9.2	17.3	31.0	59.4
Per Capita Expenditure* (RM)	n.a.	1,696	1,890	2,417
Average Length of Stay (nights)	4.8	5.8	7.2	8.7
Number of Hotels	1,220	1,492	2,256	3,218
Number of Hotel Rooms	76,373	124,413	170,873	247,008
Average Occupancy Rate of Hotel (%)	65.5	59.2	63.5	66.4
Employment	67,214	390,600	451,000	520,700

Notes:

\* Not available in Eighth Malaysia Plan 2001-2005

\*\* Not available in Ninth Malaysia Plan 2006-2010

<sup>1</sup> Tourist receipts exclude excursionist receipts.

Sources: Eighth Malaysia Plan 2001-2005 and Ninth Malaysia Plan 2006-2010

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**Table 4. Composition of Tourist Expenditure<sup>1</sup>, 1995 and 2000 (%)**

Item	1995	2000
Accommodation	32.0	32.8
Shopping	21.0	23.1
Food & Beverages	18.0	19.5
Local Transportation	8.0	7.1
Domestic Airfares	5.0	4.6
Organized Sightseeing	4.0	4.2
Entertainment	6.0	5.0
Miscellaneous	6.0	3.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
<b>Total (RM million)</b>	<b>9,174.9</b>	<b>17,335.4</b>

Note: <sup>1</sup> Tourist receipts exclude excursionist receipts.

Source: Eighth Malaysia Plan 2001-2005

**Table 5. Regional Cost Comparisons of Some of Medical Procedures (US\$)**

	Malaysia	Singapore	Thailand	Hong Kong
Preventive body check (female)	302	357	294	200-640
Cosmetic double eyelid	530-660	n.a	1300	900-1200
Ophthalmology cataract surgery	710-1310	1011	900	300-5400
Orthopedic hip replacement	3900-5300	8900	n.a.	4700-8000
Cardio-vascular open heart Surgery	6580-9200	9500	7700	4000-7700

Source: Morshidi Sirat 2004

*Table 6. Inbound international students in selected countries, 1999-2005*

Year Host Countries	1999	2000	2001	2002	2003	2004
Indonesia	325	n.a	377	377	n.a	432
Malaysia	3508	18892	16480	27731	30407	n.a
Philippines	3514	n.a	2323	2609	4744	2161
Thailand	1882	n.a	2508	4092	n.a	n.a

Source: UNESCO



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## End Notes

<sup>i</sup> The principal source of trade in services statistics is standard balance of payments (BOP) data. The IMF's Balance of Payments Manual (BMP5) divides trade in services into four broad categories: transport, travel, other private services, government services. Travel services exports receipts cover all the expenses of tourists and other travellers during their trips abroad. The new extended Balance of Payments Services (EBOPS) classification identifies health and education related expenditure in its travel component. Health-related travel expenditure is distinguished from health services, which is classified within the 'personal, cultural and recreational services' sub-component of other private services.

<sup>ii</sup> Travel services as defined in the EBOPS covers expenses for goods and services acquired by the traveler during his visit abroad. In line with the concept of residence, only persons staying in the visited country for less than one year are regarded as travelers. If they stay for more than one year, they are considered to be residents of the visited country. This guideline does not apply to students and patients receiving health care abroad, who remain residents of their economies of origin even if they longer than one year (WTO 2006).

<sup>iii</sup> Refers to the Malays and other indigenous people of Malaysia.

<sup>iv</sup> Refer to Table 5 for examples of the different modes of trade for this sector.

<sup>v</sup> Refer to Table 5 for examples of the different modes of trade for this sector.

<sup>vi</sup> Philippines is promoting Mode 1 in this sector (see Arunanondchai and Fink, 2005).

<sup>vii</sup> It is not clear if medical tourists are all defined in the same way in all the countries. Yap (2006, 25) has noted that Thailand reports all foreign patients, including expatriates while Singapore only takes into account deliberate health care seekers or tourists who make a trip explicitly to seek healthcare as the primary activity.



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*For Details, Please Contact:*

Puan Norinah Mohd. Ali  
Pegawai Penyelidik Sosial  
Institut Kajian Malaysia & Antarabangsa (IKMAS)  
Universiti Kebangsaan Malaysia  
43600 Bangi, Selangor  
Tel : 603-89215487 / 4169  
Fax : 603-89261022  
E-Mail : nira@pkriscc.ukm.my