Transforming Services Sector

Strategy Paper

18

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I. INTRODUCTION

18.1 During the Tenth Malaysia Plan, 2011-2015, the services sector remained the largest contributor to the Gross Domestic Product (GDP) at 53% and grew 6.3% annually. The services sector benefitted from rising household income, higher tourists arrivals, rapid expansion in telecommunications and buoyant financial market. The Government embarked on autonomous liberalisation of 18 subsectors and improved the ease of doing business to further boost investment and productivity.

18.2 In the Eleventh Malaysia Plan, 2016-2020, the services sector will continue to be the primary driver of the economic growth. The strategies are formulated to enhance the competitiveness and resilience of the services sector and promote the migration into high-value and knowledge-intensive services activities. The main growth contributors will be the wholesale and retail trade, financial services and communications subsectors, supported by strong household spending and stable labour market condition. Greater focus will be given to the modern and knowledge-intensive industries, including halal, ecotourism and information, communications and technology (ICT). The construction sector is expected to benefit from sustained demand for infrastructure and housing.

II. TENTH MALAYSIA PLAN, 2011-2015: PROGRESS

18.3 In the Tenth Plan, the services sector is expected to grow at 6.3% per annum, significantly higher than the overall average GDP growth of 5.3%, as shown in *Exhibit 18-1*. In 2014, the services sector contributed 53.5% to the GDP, as shown in *Exhibit 18-2*. The sector remained as the main source of employment with 8.4 million jobs representing 60.9% of total employment. On the external front, exports of services grew at 5.6% per annum comprising 18% of total exports. Malaysia was ranked second in the Association of Southeast Asian Nations (ASEAN) in terms of ratio of trade in services to GDP and among the top 30 largest services exporters in the world. In terms of establishment, small and medium enterprises (SMEs) in the services sector constituted 90% of total SMEs and contributed 20% to overall GDP.

Exhibit 18-1

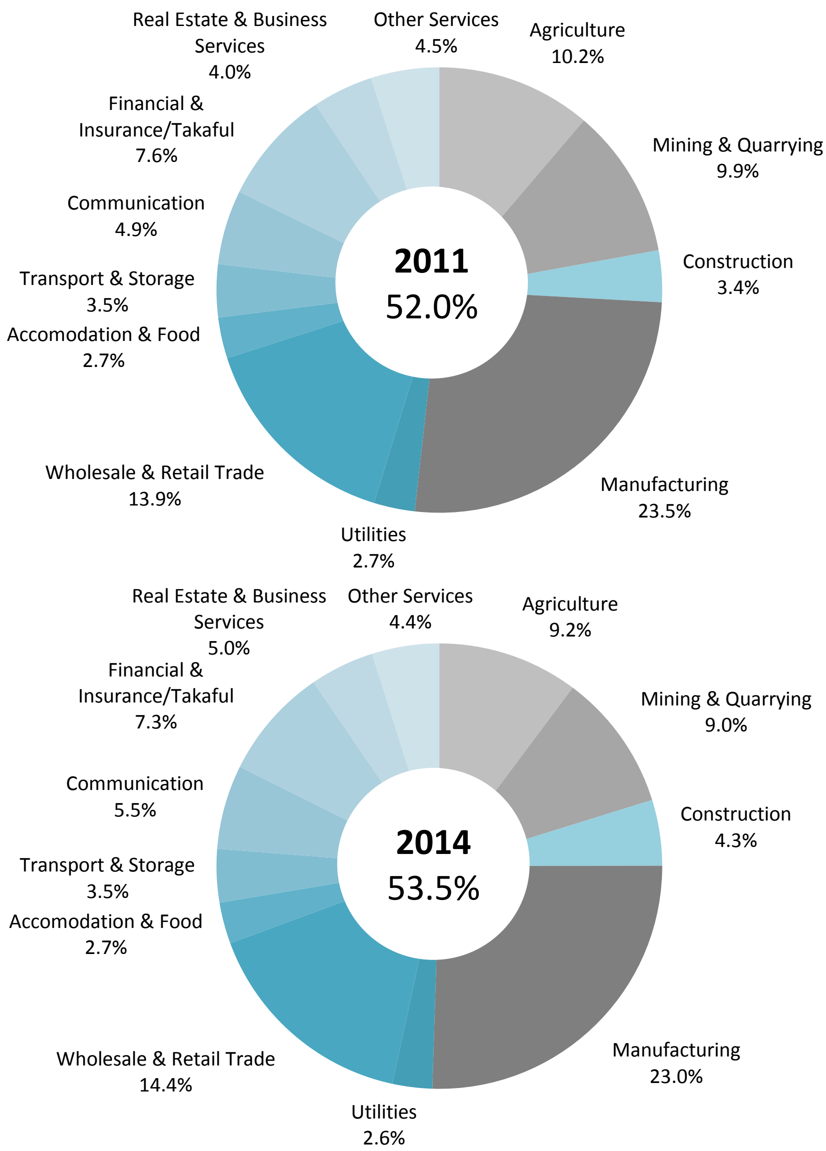
Major Indicators of the Services Sector, 2010-2020

Sector	RM million (in 2010 prices)			% of Total			Average Annual Growth Rate (%)	
							Tenth Plan	Eleventh Plan
	2010	2015[e]	2020[f]	2010	2015[e]	2020[f]	Achieved	Target
Services Value Added	**420,382**	**571,835**	**796,722**	**100**	**100**	**100**	**6.3**	**6.9**
Electricity, Gas & Water	22,173	27,094	32,830	5.3	4.7	4.1	4.1	3.9
Wholesale & Retail Trade, Accommodation & Restaurants	134,635	185,410	246,499	32.0	32.4	30.9	6.6	5.9
Transport, Storage & Communications	68,511	97,363	148,539	16.3	17.0	18.6	7.3	8.8
Finance, Insurance, Real Estate & Business Services	93,939	121,328	168,270	22.3	21.2	21.1	5.3	6.8
Government Services	64,359	94,152	127,684	15.3	16.5	16.0	7.9	6.3
Other Services	36,766	46,487	72,900	8.7	8.1	9.1	4.8	9.4
Labour Productivity (RM/worker)	59,278	68,111	83,411	…	…	…	2.8	4.1
Services Export (RM million in current prices)	111,466	146,387	195,890	…	…	…	5.6	6
Employment ('000)	7,092	8,396	9,552	59.3	60.9	62.5	3.4	2.6
Contribution of Total Services Industry to GDP (%)	…	…	…	51.2	53.8	56.5	…	…

Note: [e] Estimate
[f] Target

Source: Economic Planning Unit; Malaysia Productivity Corporation; and Department of Statistics Malaysia

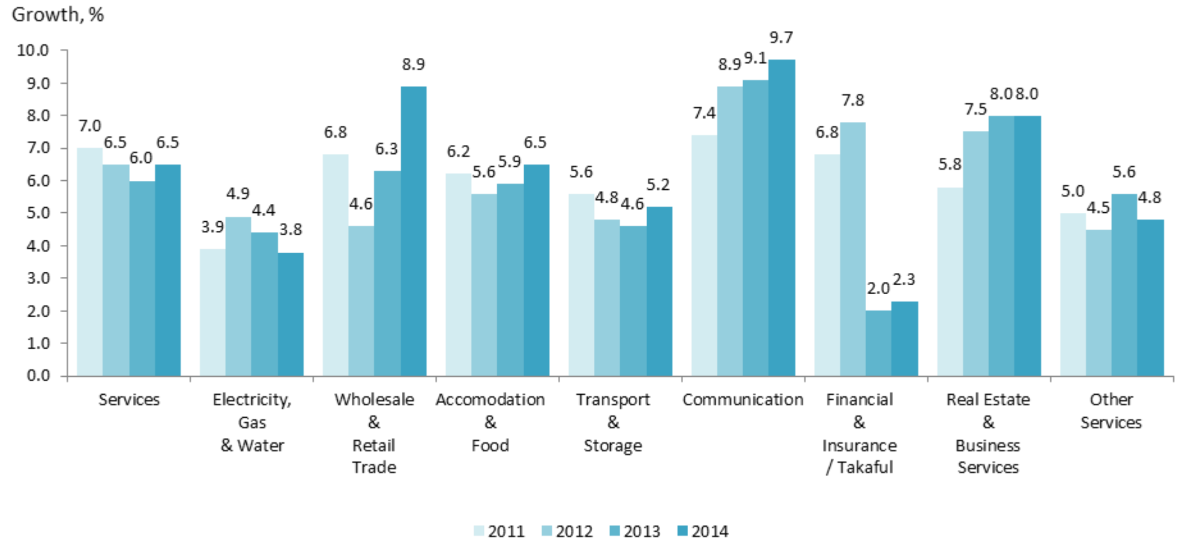
Exhibit 18-2
Services Sector Share to the GDP



Source: Economic Planning Unit, and Department of Statistics Malaysia

18.4 Growth in the sector was driven largely by strong domestic demand during 2011 to 2014 period. The wholesale and retail trade subsector grew at an average of 6.7% backed by strong household spending, high tourist arrival and rising income level, as shown in *Exhibit 18-3*. The communications subsector expanded 8.8% annually, mainly driven by strong demand for data communications services. The transportation and storage subsector sustained growth at 5% attributed to higher growth in passenger travel and land transport activities. The finance and insurance subsector grew steadily at 4.7% following vibrant financing activities and capital market.

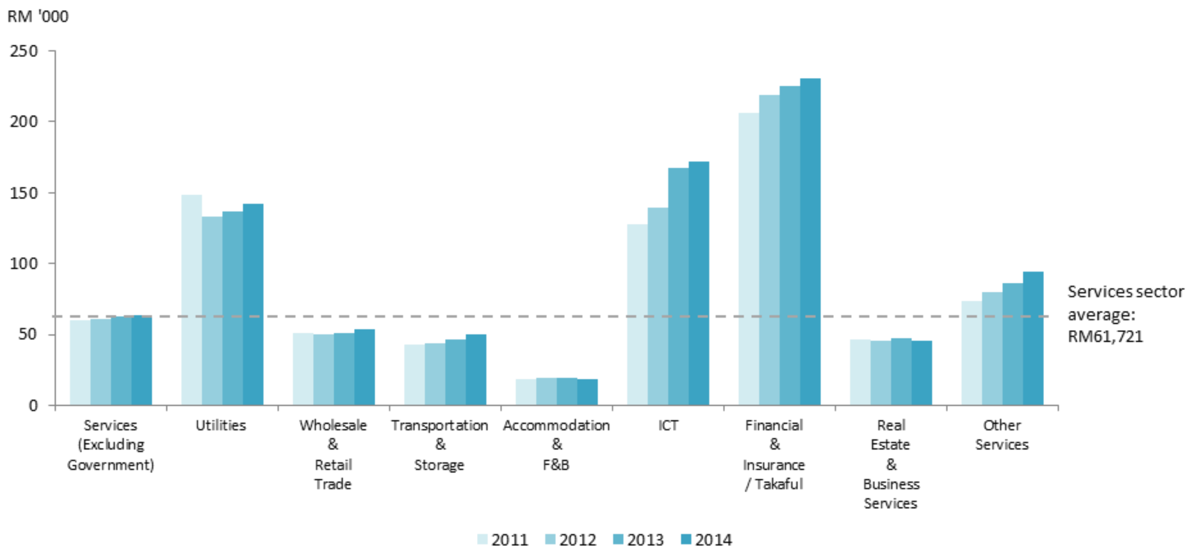
Exhibit 18-3
Services Sector Growth



Source: Economic Planning Unit; and Department of Statistics Malaysia

18.5 Productivity in the services sector grew at an average rate of 2.8% per annum. The highest productivity growth was in the ICT subsector, which increased 14.3% followed by the other services at 8.2%, finance and insurance at 4.5% as well as transportation and storage at 3.4%. The utilities, ICT, and finance and insurance subsectors continuously surpassed the overall productivity level in the services sector, which stood at an average of RM61,721 between 2011 to 2014, as shown in *Exhibit 18-4.*

Exhibit 18-4
Productivity in the Services Sector



Source: Malaysia Productivity Corporation (MPC)

18.6 The services sector was autonomously liberalised in an effort to attract foreign investments and enhance its competitiveness. In 2012, 18 services subsectors were liberalised allowing up to 100% foreign equity in wholesale and retail trade services, healthcare, professional services, environmental services, telecommunications, courier and education. In addition, the Government enforced the Competition Act in 2012 and undertook a series of regulatory reforms and business process improvement, which complemented the liberalisation initiative. This resulted in significant achievement in creating business friendly environment as reflected by Malaysia's performance on the World Bank's Doing Business 2015 report, ranking from 23rd position in 2010 to 18th position.

III. ISSUES AND CHALLENGES

18.7 The key issues in the services sector include insufficient skilled human capital and skills mismatch, low exports capabilities, complex regulatory framework, weak institutions, inadequate access to financing and low technology adoption. Resolving these issues will be crucial to enable the sector to move up the value chain.

Labour Productivity

18.8 Labour productivity level in the services sector, particularly among services SMEs, continues to be relatively lower compared with SMEs in the manufacturing and agriculture sectors. The composition of the services sector that is skewed towards subsectors which depends mostly on low-skilled labour contributes to the low productivity level. Among factors that affect productivity in services include low technology adoption, over reliance on foreign workers and complex regulatory framework and weak institutions.

Human Capital and Skills Mismatch

18.9 The shift towards knowledge-intensive services activities requires a high number of skilled workers to enable modernisation and greater adoption of new technologies. Insufficient skilled human capital and skill mismatches are widely acknowledged bottlenecks that restrain the shift towards knowledge-intensive sectors. Skills mismatch is reflected by the relatively high unemployment rate among graduates, which stood at 25% in 2013. In addition, access to training remains challenging for smaller firms due to cost issues or inability to retain personnel. Talent shortage is exacerbated by the outflow of local talents.

Exports Capabilities

18.10 The services exports are concentrated in the travel and tourism services while exports in modern services such as ICT, professional, health and business services remain relatively small. In terms of establishment, the number of services exporters was relatively small with only, 1,313 firms across economic sectors. However, based on the Economic Census 2011, the number is much smaller among services firms with only 66 firms from 560,456 services firms were found to be exporting services in 2010. Among the factors constraining exports include a lack of understanding of exports market particularly for SMEs, limited collaboration between SMEs and the GLCs in overseas ventures, and access to exports financing. Fragmented industry structure for certain industries such as construction and professional services, also hampered the procurement of overseas projects which require integrated solutions.

Regulatory Framework

18.11 Although Malaysia has undertaken significant effort to modernise business regulations, it still lags behind many developed countries in regulatory quality and environment. The regulatory framework for services sector which spans across various government ministries and agencies has led to difficulty in navigating and streamlining regulations of the sector. In addition, industry players often find existing regulations and practices to be either outdated or cumbersome. There is also insufficient stakeholder consultation in the formulation of new regulations and changes in existing ones which could lead to ineffective regulations and higher cost of doing business.

18.12 Given the involvement of multiple ministries and agencies in the development of the services sector, there is a need to ensure sectoral policy coherence with the national development objectives. The lack of central coordination of incentives programmes has led to poor cross-agency visibility, scheme overlaps and limited awareness among companies on the incentive offerings. The poor cross-agency visibility has also opened opportunities for rent seekers to apply for similar incentives across multiple agencies. In addition, key performance indicators are often based on amount of investment, which may lead to bias towards subsectors which are capital intensive as compared to those that are knowledge-intensive.

Access to Financing

18.13 Malaysian firms generally have good access to financing. However, issue of access to financing persists in the services sector, particularly affecting knowledge and innovation driven companies which are typically asset light and lack the required collateral. SMEs especially micro enterprises also face challenges in securing financing due to poor maintenance of financial records.

Technology Adoption, and Research and Development

18.14 New technologies, increased competition and changes in consumer behaviour require companies to undertake continuous innovation to remain competitive. However, access to soft technologies such as production processes, modern construction practices and management practices, and compliance to international standard is a constraint for many SMEs due to lack of skilled human capital and financial capabilities. The Economic Census 2011 showed that only 27% of SMEs used ICT in their business operations, indicating vast potential for greater automation among SMEs. In the construction sector, the adoption rate of Industrialised Building System (IBS) was only 24% of completed projects in 2014 compared with the target of 100% for Government projects valued above RM10 million as stipulated in the IBS Roadmap, 2011-2015. Meanwhile, researches related to halal industry are limited to deoxyribonucleic acid (DNA) tracing. There is a need to broaden the field of halal research to include alternative ingredients, conversion of industrial chemicals processes and formulations of *fatwa*.

IV. ELEVENTH MALAYSIA PLAN, 2016-2020: WAY FORWARD

18.15 In the Eleventh Plan, the development of the services sector will be guided by the Services Sector Blueprint, launched in 2015. The Blueprint aims to unlock the potential of the sector and transform it to become more knowledge-intensive and innovation-led. The services sector is expected to grow at 6.8% per annum and contribute 56.5% to the GDP in 2020, and provide 9.3 million jobs, as shown in *Exhibit* 18-1. In addition, specific targets to transform the services sector are as follows:

- Increasing value added per worker from RM55,574 in 2013 to RM74,101 in 2020;
- Raising the contribution of knowledge driven subsectors to the GDP from 36% in 2014 to 40% in 2020; and
- Increasing the share of services exports value added from 12% in 2010 to 19% in 2020.

Strategic Shifts

18.16 During the Plan period, the transformation of the services sector requires three strategic shifts to be undertaken. The strategic shifts emphasise on the need to steer the development of the services sector towards quality growth. This can be achieved by focusing on changing the composition of the sector, leveraging the linkages between sectors, improving external competitiveness and generating high-income jobs. The strategic shifts are as follows:

- Focusing on knowledge-intensive services
- Shifting towards integrated sectoral governance reform
- Stepping up internationalisation of services providers

Focusing on Knowledge-Intensive Services

18.17 The first strategic shift is on changing the composition of the services sector towards more knowledge-intensive and high value-added subsectors. Targeting knowledge-intensive services places clear focus on the need to develop high-skilled human capital. This will enable the sector to maximise its contribution to productivity growth and create more high-income jobs.

Shifting Towards Integrated Sectoral Governance Reform

18.18 The second shift involves moving from piecemeal reforms towards integrated sectoral governance reforms. The more comprehensive, coordinated and strategic approach to governance reforms will further reduce regulatory costs, enhance business competitiveness and attract greater investment.

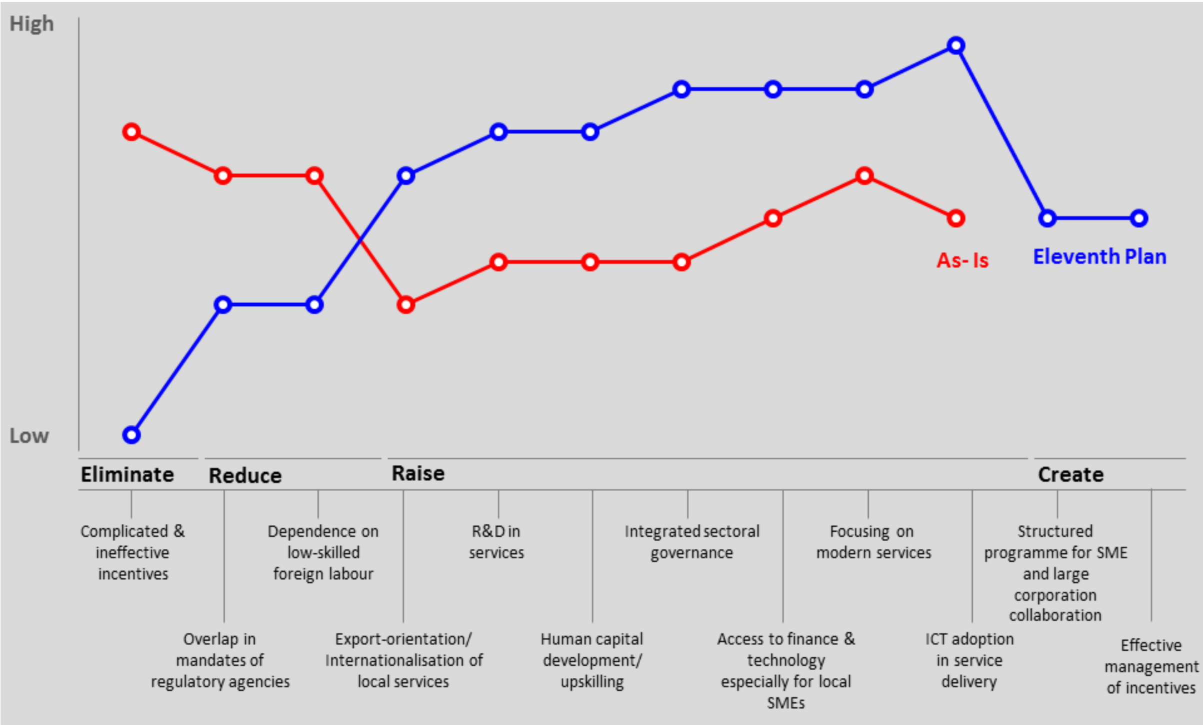
Stepping Up Internationalisation of Local Services Providers

18.19 Finally, stepping up internationalisation of services providers is the key lever to improve external competitiveness of the sector and capture greater export opportunities. This will require pro-active approaches to enhance export capabilities of local services providers, seek new regional markets and embark on new export promotion strategies.

18.20 The three strategic shifts will be supported by five policy focus areas, which encompass 12 strategies as per the strategy canvas in *Exhibit 18-5*. The five policy focus areas are:

- Fostering a dynamic environment for knowledge intensive services
- Implementing comprehensive and integrated governance reforms
- Stepping up internationalisation of local services providers
- Enhancing management of investment incentives
- Focusing on modern services

Exhibit 18-5
Strategy Canvas on Services Sector



Fostering a Dynamic Environment for Knowledge Intensive Services

18.21 Initiatives will be enhanced to produce, attract and retain skilled talents to be employed in high-income services subsectors. The successful implementation of the Education Blueprint and the Talent Roadmap will be critical in addressing key structural challenges for human capital development. Efforts to accelerate human capital development in the services sector include:

- **Improving industry readiness of new graduates** by fostering greater industry and institutions of higher learning collaboration, raising the profile of Technical and Vocational Education and Training (TVET) pathway, enhancing the impact of bridging programmes and soft skills training;

- **Eliminating labour market mismatch** by implementing integrated national manpower planning, which include a more analytical approach to identify instances of mismatched skills and introducing specific levers to overcome skill shortages;
- **Unlocking potential of alternative talent pools** by facilitating foreign talent and enhancing training of employees;
- **Encouraging SMEs to provide training for their employees** by scaling up existing awareness campaign and implementing certification programme to increase the SMEs motivation in training their employees;
- **Expanding a Research Incentive Scheme for Enterprise** to enhance technology absorption and allow companies to recruit experienced R&D researchers through partially funding monthly wages of researchers staffed at the Centres of Excellence (CoE). This incentive is expected to attract technology leaders to set up R&D centres or CoE in the identified technology focus areas such as big data analytics, cloud computing and wireless intelligence. The expertise and skillsets in the CoE and R&D centres will bring forth innovation, best practices and better knowledge dissemination; and
- **Introducing co-funded scholarship programme** where the Government and selected SMEs co-fund local scholars to assist SMEs in securing top talent. This programme will complement the Scholarship Talent Attraction and Retention (STAR) programme which enables the Public Service Department (JPA) scholars to serve their bond in the private sector. JPA and SME Corp will undertake a comprehensive study to ensure the viability of this initiative.

Implementing Comprehensive and Integrated Governance Reforms

18.22 The Government will undertake efforts to provide an efficient, facilitative policy environment and machinery to provide a thriving business environment. Cumbersome and inappropriate bureaucratic procedures affecting businesses will be reduced or eliminated. Efforts towards comprehensive and integrated governance reforms include:

- **Realigning functions of related ministries and agencies to reduce overlapping responsibilities**. The Special Committee on Services Sector will oversee the implementation of the development strategies and action plans, particularly the Services Sector Blueprint, the Logistic and Trade Facilitation Master Plan (LTFMP) as well as the Construction Industry Transformation Programme. The committee will ensure cross-sectoral policy and agency coherence in line with the national development objectives. The National Logistic Taskforce will be set-up to lead the implementation of the LTFMP;
- **Expanding and accelerating the roll-out of the National Policy on the Development and Implementation of Regulations (NPDIR) to state and local governments.** The NPDIR introduced in 2013 guides the development of good regulations by setting out

core principles to ensure regulatory structures and processes are robust, transparent, accountable and forward-looking. The capacity of regulatory coordinators in ministries and agencies will be strengthened to ensure adherence to NPDIR. The regulatory reform will also be aligned to Malaysia's commitments in existing free trade agreements and unilateral liberalisation initiative;

- **Accelerating sectoral regulatory reforms** through active industry and regulator engagement. Establishing a framework determining the priority sectors and timing of implementation; and
- **Introducing a regulatory portal** to improve transparency and access to regulations.

Stepping Up Internationalisation of Local Service Providers

18.23 The internationalisation of services providers will be a key lever in developing the services sector as it increases competitiveness, secures new markets and enhances investment opportunities. The Government will build export capabilities and enhance readiness of firms to penetrate international market. Four strategies to mitigate key challenges are:

- **Creating strong partnerships** between SMEs and large corporates to increase the competitiveness of services providers;
- **Raising capabilities of services providers for internationalisation**. This entails encouraging adoption of technology and providing a more structured exporters training programme. In addition, account management system which provides specialised assistance to individual firms will be developed to build more global and regional champions. Recognising the potential of franchise businesses in expanding exports, the franchise development programme will be enhanced to build local franchisors capacity to penetrate new market;
- **Opening up and harmonising markets through government to government negotiations.** The Free Trade Agreement (FTA) and Mutual Recognition Agreement (MRA) negotiations capabilities will be strengthened and implementation of the agreement will be further improved. This will be supported by comprehensive and systematic stakeholder consultations, robust statistics, build-up of experienced negotiators and wider FTA outreach initiative; and
- **Addressing critical funding gap** by providing a RM5 billion Services Sector Guarantee Scheme to ensure better access to financing for services sector companies to grow domestically and enter global markets. In addition, the Services Export Fund (SEF) amounting to RM300 million will assist companies to participate in trade exhibitions, undertake exports promotion, market research and advertising, as well as other exports related activities.

Enhancing Management of Investment Incentives

18.24 Effectiveness, transparency and performance outcome orientation of existing and future incentive programmes will be improved to spur quality growth in the services sector. The Incentive Coordination and Collaboration Office (ICCO), a new unit established under MIDA, will be the coordinator for all investment incentives. ICCO will be a one-stop centre to advise and coordinate businesses on incentive offerings and provide cross-agency visibility. It will advise the Government on incentive design and assist in monitoring and evaluation.

Focusing on Modern Services

18.25 The Eleventh Plan will also focus on the development of subsectors and industries that have high knowledge intensity and potential to generate high-income jobs and have strong linkages with the rest of the economy. Industries such as Islamic finance, ICT, oil and gas services, private healthcare, private higher education, ecotourism, halal industry and professional services will be further promoted. Development strategies for these industries, except ICT, and oil and gas services are discussed in the following section. Detailed strategies for ICT and oil and gas services are contained in *Strategy Paper 15: Driving ICT in the Knowledge Economy* and *Strategy Paper 17: Sustainable Usage of Energy to Support Growth*.

V. SECTORAL STRATEGIES

18.26 The services sector comprises a multitude of diverse subsectors, some of which are more tradable, capital and knowledge intensive than others. The Services Sector Blueprint sets out horizontal strategies for a more coherent and synergistic development of the services sector. Although the horizontal strategies will be applied across the various services subsectors, there is a need to formulate subsectors specific strategies to address issues which are peculiar to each subsector. Hence, this section covers the Tenth Plan progress and the Eleventh Plan strategies for the following subsectors:

HALAL INDUSTRY	FINANCIAL SERVICES
TOURISM INDUSTRY	WHOLESALE AND RETAIL TRADE
PRIVATE HIGHER EDUCATION	PROFESSIONAL SERVICES
PRIVATE HEALTHCARE	CONSTRUCTION INDUSTRY

Transforming Services Sector:

Halal Industry

Strategy Paper

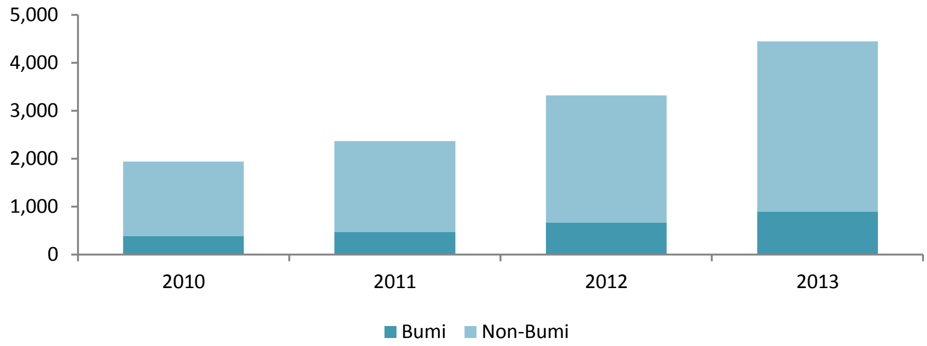
18A

PROGRESS

18.27 Malaysia is at the forefront in developing halal*[1]* standards in line with the vision to become a global halal hub by 2020. The first halal standard in the world MS2200: Islamic Consumer Goods Part One: Cosmetics and Personal Care – General Guidelines, was developed in 2008. Malaysia pioneered halal standards with 13 halal and halal-related standards ranging from production, preparation, handling and storage of food to general guidelines on halal pharmaceuticals. As of May 2015, the Halal Malaysia logo and standards have been accepted by 57 international certification bodies.

18.28 Demand for halal certification increased following the enforcement of Trade Description Act 2011, which renders halal self-declaration and the use of generic halal logos illegal. As of December 2013, the number of halal certified companies by the Department of Islamic Development Malaysia (JAKIM) surged 34% to 4,443 companies compared with 3,316 in 2012. Out of the total, 75% were SMEs while the remaining were multinational corporations (MNCs). The majority of halal certified companies were non-Bumiputera companies representing 80% of the industry, as depicted in *Exhibit 18-6*.

Exhibit 18-6
Halal Certified Companies by JAKIM, 2010-2013



Source*:* Department of Islamic Development Malaysia

18.29 Malaysia currently has 21 halal parks, of which 13 are accorded Halal Malaysia (HalMas) status. HalMas is an accreditation given to halal park operators who have successfully complied to the requirements and guidelines of the Halal Industry Development Corporation (HDC). These parks are at different stages of operation and development. Since the introduction of HalMas, the halal parks attracted RM8.1 billion of investments into the country comprising local and foreign investors. Details are shown in *Exhibit 18-7*.

[1] The concept of halal refers to the manner of producing goods and services which are *Syariah* compliant. Malaysia's halal portfolio has expanded beyond food and beverage, venturing into other sectors such as cosmetics, logistics, pharmaceutical, financial and tourism.

Exhibit 18-7
Approved and Realised Investment in Halal Parks

Year of Approval	Approved		Realised	
	Number	Investment (RM billion)	Number	Investment (RM billion)
2010	61	4,230*	15	528
2011	23	1,960	28	2,686
2012	17	1,010	23	2,397
2013	27	860	7	840
Total	**128**	**8,060**	**73**	**6,451**

Note: * Cumulative for 3 years (2008-2010)
Source: Halal Industry Development Corporation

18.30 Since 2010, Malaysian exports of halal-certified products recorded an upward trend. Halal exports increased more than double from RM15.2 billion in 2010 to RM32.8 billion in 2013, which accounted for approximately 4.6% of total exports. Exports were dominated by MNCs valued at RM25.5 billion or 77.6% to total exports, followed by medium size SMEs, which contributed RM6.7 billion or 20.5% and micro SMEs with RM0.6 billion or 1.9%. In terms of product categories, 70% of total halal exports in 2013 were food and beverages as well as ingredients.

18.31 The Asia-Pacific Economic Cooperation (APEC) was Malaysia's biggest halal export market in 2013 with RM22.6 billion followed by the Commonwealth market with an export value of RM7.8 billion. The top 10 destinations for Malaysian halal exports included countries where the majority of its population are non-Muslims implying halal products have the potential to penetrate any market.

18.32 In an effort to strengthen Malaysia's position as the halal reference centre and lead the harmonisation of halal standards, Malaysia has initiated steps to become a member of the Standards and Metrology Institute for Islamic Countries (SMIIC). In general, SMIIC aims to harmonise standards in the member states and eliminate technical barriers and enhance trade among member countries.

18.33 Despite the world's recognition of Halal Malaysia, there are challenges to be addressed to stay ahead of competitors. Currently, there is a lack of comprehensive policy and strategy in developing halal industry. The institutional framework of halal industry, which is under the purview of different agencies led to inefficiency in promoting and developing the halal agenda. There is limited capacity in certification and auditing bodies to meet the rising demand for certification causing longer approval time. The inability of local producers to produce halal products on long-term basis and to comply with international standards and requirements hampered exports. Most R&D related to halal is narrowly focused on DNA tracing, while R&D in areas such as alternative ingredients and formulations of *fatwa* are lacking. There is also a lack of structured training programmes to certify workers as qualified halal experts.

WAY FORWARD

18.34 In the Eleventh Plan, Malaysia targets to become the Global Reference Centre for Halal Integrity and Centre for Innovation, Product and Trade. The Halal Malaysia logo and halal standards acceptance will be leveraged to develop more export ready companies. The growth targets for halal industry are as shown in *Exhibit 18-8*.

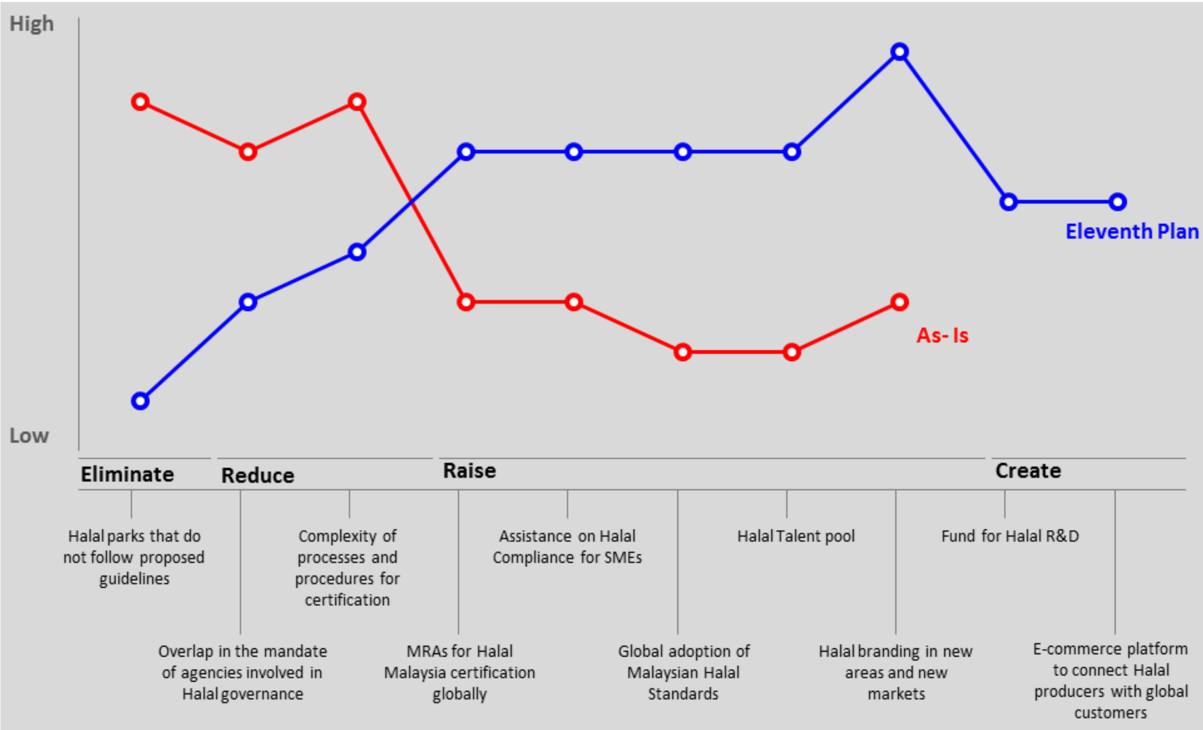
Exhibit 18-8
Growth Targets

Item	2013	2020
Contribution to GDP (%)	-	8.7
Export ready company	645	1,600
Contribution to Export (%)	21	50
Employment	165,000	330,000

Source: Halal Industry Development Corporation

18.35 The strategy canvas for the development of halal industry is as illustrated in *Exhibit 18-9*.

Exhibit 18-9
Strategy Canvas for Halal Industry Development



18.36 Moving forward, the development of halal industry will adopt the following strategic approaches:

- Further developing the industry as a source of competitive advantage and catalyst for growth
- Encouraging innovation and creativity, anchored on Islamic principles and values
- Being pragmatic in implementing strategies for the development of the industry

18.37 The strategies to achieve the growth target of the halal industry are as follows:

- Improving sectoral governance
- Fortifying Halal Malaysia integrity
- Enhancing exports
- Connecting Malaysia to the regional halal supply chain
- Increase supply of competent halal experts

Improving Sectoral Governance

18.38 Institutional and regulatory reforms will be undertaken to further develop halal industry. The governance structure will be improved and streamlined to ensure holistic policy formulation and development of the industry as well as enhance ease of doing business. The initiatives to be undertaken are as follows:

- Strengthen the capabilities of certification and auditing bodies to build a credible and efficient system for halal certification. These bodies will adopt business friendly culture and facilitate certification without compromising on halal integrity;
- Review and harmonise regulations to enhance halal industry development. Guidelines for management and operations of halal park will be introduced, while other practices that impede halal industry growth will be removed; and
- Encourage institutional buying and accord special preference in government procurement with clear steps to make it mandatory in the future.

Fortifying Halal Malaysia Integrity

18.39 The global acceptance of Halal Malaysia brand signifies our strength in halal standards and certification. To stay on the leading curve, the following strategies will be adopted:

- National standards compliance programme will be introduced and the halal standards will be linked with international standards such as Hazard Analysis and Critical Control Points (HACCP) and Good Manufacturing Practices (GMP). This programme will lead to higher integrity of halal certification

- Specific halal standards for industries such as halal medical devices, method of analysis and halal ingredients will be developed. These standards will allow the regulator to have proper control mechanisms on the specific halal products
- A halal R&D fund will be created to encourage researchers to undertake halal R&D in supporting the formulation of *fatwa* on halal, strengthen traceability and identify new potentials for halal in products and processes. Focus will be given to alternative halal ingredients, halal pharmaceuticals and industrial chemicals. Malaysia will leverage its strength in palm oil industry to produce plant-based ingredients
- In managing the consumer confidence, focus will be intensified to advocate halal awareness and understanding among producers and consumers. Procedures relating to halal auditing, testing and development will be made transparent and information will be disseminated faster to ensure market confidence

Enhancing Exports

18.40 Strategies to enhance exports of halal products and services are as follows:

- Leveraging on MRAs to penetrate and expand halal markets
- Monetising Malaysian halal standards and certification advisory services
- Making Malaysia as center of excellence for halal by enhancing halal outreach programmes and encourage industry conformance to halal standards. This includes active participation and visibility at strategic platforms such as in ASEAN and OIC to push the halal agenda
- Local industry players will be incentivised to obtain halal certification, particularly to facilitate international market penetration. SMEs will be encouraged to expand production capabilities and export halal products, particularly to ASEAN

Connecting Malaysia to the Regional Halal Supply Chain

18.41 The objective of positioning Malaysia as a Global Halal hub requires seamless connectivity and linkages to the global markets. In this regard, the following strategies will be implemented:

- Establishing dedicated halal regional distribution centres (HRDCs) for seamless connectivity from source to shelf. HRDCs activities include combine sourcing, procuring and distribution
- Enhancing halal e-trading platform to link local and regional halal suppliers to the global supply chain. The e-trading platform will create an alternative platform for halal companies to trade globally
- Establishing a halal ingredient database, which will include information on halal ingredients, halal requirements, approved suppliers and new product innovation in the global market

Increase Supply of Competent Halal Expert

18.42 A training programme will be developed to increase the supply of halal experts in the market and improve the competency of existing halal experts. The training will include training modules, code and ethics in conducting halal practices as well as type of penalty to be imposed if the code is violated. This pool of experts has the potential to earn better wages. Collaboration with selected institutions of higher learning will be explored to offer courses in producing ingredient specialists, particularly in the areas of aroma chemicals, fragrance and flavours development.

Transforming Services Sector:

Financial Services

PROGRESS

Financial Sector

Capital Market

WAY FORWARD

Financial Sector

Effective and Efficient Intermediation

Strengthening Regional and International Financial Integration

Internationalisation of Islamic Finance

Developing Deep and Dynamic Financial Markets

Financial Inclusion for Greater Shared Prosperity

Regulatory and Supervisory Regime to Safeguard Financial System Stability

Electronic Payments for Greater Economic Efficiency

Empowering Consumers

Enhancing Talent Development

Capital Market

Promoting Capital Formation

Expanding Intermediation Efficiency and Scope

Deepening Liquidity and Risk Intermediation

Facilitating Internationalisation

Building Capacity and Strengthening Information Infrastructure

Enhancing Product Regulation to Manage Risks

Expanding Accountabilities as Intermediation Scope Widen

Robust Regulatory Framework for a Changing Market Landscape

Effective Oversight Risks

Strengthening Corporate Governance and Broadening Participation

Strategy Paper

18B

PROGRESS

18.43 The Malaysian financial sector and capital market have undergone marked transformation to provide a strong foundation for further growth and development. In 2011, the Financial Sector Blueprint (FSBP) and the Capital Market Masterplan 2 (CMP 2) were launched to chart the future growth and development of the financial services industry until 2020. The phased implementation of both plans will enhance competitiveness of the industry and effectively facilitate allocation of financial resources.

Financial Sector

18.44 The financial sector transformation has resulted in an increasingly diversified, competitive and resilient financial system. This is reflected by its ability to withstand destabilising episodes of increased volatility and stress. In addition, the transformation has led to a more established financial market infrastructure particularly the domestic debt securities market as well as robust payment and settlement system. The development of debt securities market has contributed toward financial stability by dispersing risk concentration in the financial system.

18.45 The institutional development and capacity building initiatives have generated highly competitive domestic financial institutions evident from the improvements in capital strength, asset quality and profitability. Total assets of the banking system expanded with an average compounded annual growth rate of 8.5% between 2011 and 2014, as shown in *Exhibit 18-10*. Similarly, the insurance sector sustained its growth momentum with higher premium income.

Exhibit 18-10
Capital, Asset and Profitability of Malaysian Financial Institutions

Item	As at end				Compound Annual Growth (CAGR)
	2011	2012	2013	2014	
Banking System					
Total Asset (RM trillion)	1.8	1.9	2.1	2.3	*8.5*
Risk-Weighted Capital Ratio	*15.7*	*15.7*	*14.9* [1]	*15.2*	-
Return on Assets	*1.6*	*1.6*	*1.5*	*1.5*	-
Return on Equity	*17.4*	*17.4*	*15.9*	*15.2*	-
Net Impaired Loans Ratio	*1.8*	*1.4*	*1.3*	*1.2*	-
Insurance Companies					
Capital Adequacy Ratio	*222.5*	*219.1*	*246.1*	*253*	-
Life's New Business Premium (RM billion)	10.9	12.0	12.1	12.8	*5.5*
General's Gross Direct Premium (RM billion)	15.4	16.6	17.8	19.0	*7.3*
Penetration rate (%)					
Direct Insurance	*39.5*	*40.9*	*41.0*	*41.0*	-
Takaful	*12.6*	*13.0*	*13.9*	*14.5*	-
Development Financial Institutions					
Gross Impaired Loans Ratio	*7.3*	*6.3*	*5.6*	*4.7*	-
Return on Assets	2.7	2.5	2.2	1.6	-

Note: [1] Beginning January 2013, capital components are reported as Total Capital Ratio based on Basel III Capital Adequacy Framework

Source: Bank Negara Malaysia

18.46 The Islamic banking sector witnessed steady growth with a higher demand for Islamic financial services. The Islamic banking sector including development financial institutions accounted for 25.6% of the total banking system's assets as at end 2014 compared with a 22.4% as at end 2011. The growth in the takaful industry has been robust with the total asset of takaful funds increasing by 11.2% annually to RM22.7 billion as compared to RM17 billion at end 2011. The net contributions of Takaful operators' accounted for 13.3% of the total net premiums and contributions in the insurance and takaful sectors, from 13% in 2011. The Malaysia International Islamic Financial Center (MIFC) initiatives have facilitated the internationalisation of Islamic finance. This has resulted in an integrated, end-to-end marketplace recognised as a global destination for expertise, innovation and deal flow.

18.47 Malaysia has made further progress in financial inclusion. As at end 2014, the outreach of financial services nationwide has improved with 99% of adult population having access to banking services. The development of the *Pembiayaan Mikro* framework has enabled access to credit for micro enterprises. Total outstanding financing extended under the *Skim Pembiayaan Mikro* was RM863.2 million as at end 2014. In addition, efforts to empower the underserved through financial information, education and assistance such as

Credit Counselling and Debt Management Agency (AKPK) and *Bank Negara Malaysia Laman Informasi Nasihat dan Khidmat* (BNMLINK) continued to yield positive results. Since its inception in 2006, AKPK has provided financial education to the public benefiting more than 260,000 people nationwide.

18.48 The regulation and supervision of financial institutions has become more risk-focused and pre-emptive to reflect the nature, size and complexity of different institutions. The enforcement of the Financial Services Act 2013 and the Islamic Financial Services Act 2013 strengthened the oversight powers of Bank Negara Malaysia in maintaining financial stability, supporting inclusive growth and ensuring adequate consumer protection. The Financial Sector Assessment Program by the International Monetary Fund and the World Bank in 2012, concluded that the Malaysian banking system is well capitalised. It also ascertains the regulatory and supervisory regime exhibits a high degree of compliance with international standards.

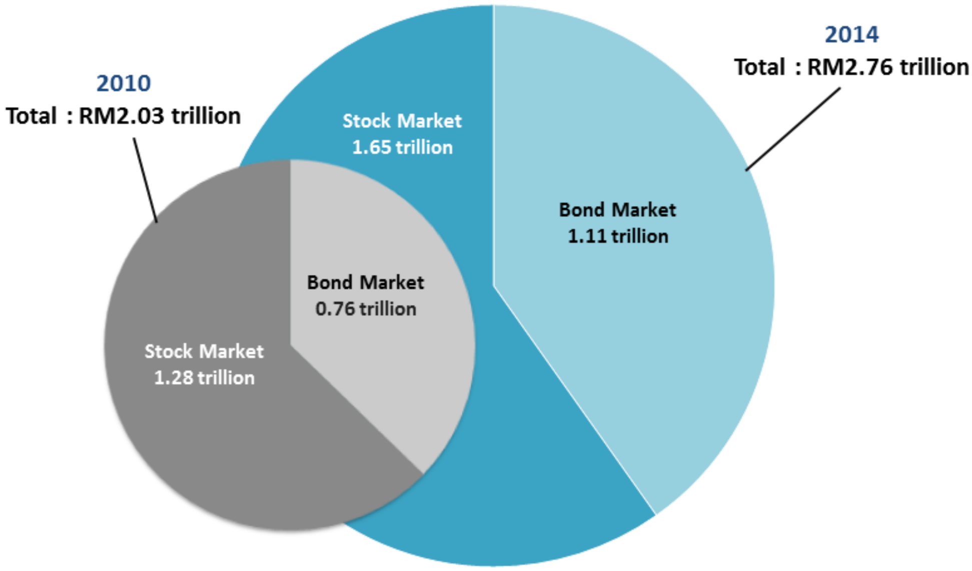
Capital Market

18.49 The capital market has undergone significant expansion, recording strong growth across all market segments and providing diversified sources of financing. The scale of capital market-based financing has deepened reflecting the increasing role of capital market in financing the economy and facilitating capital formation for Malaysian companies. Over the past decade, the capital market has established itself as a broad and deep market providing issuers and investors significant opportunities for financing and investment. This growth is supported by a robust regulatory framework that focuses on investor protection and safeguarding market integrity.

18.50 The size of the overall capital market expanded to RM2.8 trillion in 2014 from RM2 trillion in 2010, representing 2.6 times the size of the Malaysian economy as shown in *Exhibit 18-11*. The broadening and deepening of the capital market was achieved through record capital raising and strong growth in savings mobilisation, underpinned by effective regulatory oversight that provided trust and confidence in the capital market. In 2014, fund raised by private sector through capital market was RM92 billion as shown in *Exhibit 18-12*.

Exhibit 18-11

Size of the Malaysian Capital Market as at 31 December 2014



Source: Securities Commission Malaysia

Exhibit 18-12

Malaysian Capital Market - Funds Raised

Item	As at end (RM Billion)				Compound Annual Growth (CAGR)
	2011	2012	2013	2014	
Funds raised through capital market					
Corporate bonds	70.6	123.8	86.2	86.0	6.8
Initial Public Offering (IPO)	6.0	22.1	8.2	5.9	-0.6
Total	**76.6**	**145.9**	**94.4**	**91.9**	**6.3**
Size of Markets					
Equity Market Capitalisation	1,284.5	1,465.7	1,702.1	1,651.2	8.7
Debt Securities Outstanding	841.1	1,007.8	1,031.0	1,109.7	9.7
Overall Capital Market	**2,125.6**	**2,473.5**	**2,733.1**	**2,760.9**	**9.1**
Islamic Capital Market	1,155.7	1,416.8	1,541.7	1,588.4	11.2
Fund Management (Assets Under Management)	423.6	505.1	588.4	630.0	14.2
Unit Trust Industry (Net Asset Value)	249.5	294.9	335.5	343.0	11.2
Penetration rate (%)	19.4	20.1	19.7	20.8	-
Private Retirement Schemes (Net Asset Value)	0	0.06	0.3	0.7	
No of Members	0	11,081	64,710	128,977	-

Source: Securities Commission Malaysia

18.51 The significant change in the position of the capital market occurred through the bond market which grew at 10% annually from RM758.6 billion outstanding as at end 2010 to RM1.1 trillion as at end 2014. Malaysia remains the third largest bond market in Asia, as a percentage of the GDP, after Japan and South Korea. The equity market has grown with the largest number of public listed companies (PLCs) in ASEAN and hosts globally large Initial Public Offerings (IPOs). At end March 2015, equity market capitalisation increased to RM1.7 trillion compared with RM1.3 trillion at end 2010.

18.52 The Islamic capital market (ICM) recorded a 12% annualised growth rate between 2011 and 2014. The ICM accounted for 57.5% of the overall capital market, amounting to RM1.6 trillion in 2014. Malaysia continues to be the global leader in the *sukuk* market accounting for 65.6% of global *sukuk* issuance and 57.4% of global *sukuk* outstanding. Malaysia also boasts a distinctive Islamic fund management industry and a leading Islamic unit trust industry comprising 188 Shariah-compliant funds with net asset value of RM46.7 billion.

18.53 The investment management industry has also shown strong growth. Total assets under management rose from RM377.4 billion in 2010 to RM630 billion in 2014. Similarly, the net asset value of the unit trust industry increased from RM226.8 billion to RM343 billion.

18.54 The private retirement scheme[2] (PRS) introduced in 2012 to support the retirement needs of Malaysians, continue to gain popularity. The PRS complements the mandatory contributions made to the Employees Provident Fund and benefits all sectors of the labour market, including the self-employed. Each PRS offers a choice of retirement funds from which individuals may choose to invest in, based on their own retirement needs, goals and risk appetite. At end 2014, there were 128,977 PRS members compared with only 11,081 members in 2012. In the 2014 Budget, the Government announced a youth incentive to encourage greater participation in the PRS and to cultivate retirement savings culture amongst younger demographic.

18.55 Total venture capital investment decreased from RM3.4 billion in 2010 to RM3.3 billion in 2014 attributed to lower public investment. The bulk of venture capital investment was in manufacturing and ICT. The Government provided the largest source of venture capital funds followed by private corporations including banks, insurance and local companies.

18.56 The capital market regulatory framework has achieved strong international recognition. Malaysia obtained a rating of fully implemented for 34 out of 37 principles assessed under the International Organisation of Securities Commission (IOSCO) Self-Assessment; in effect a 92% compliance level, the highest among countries that underwent

[2] The PRS is a voluntary long-term investment scheme designed to help individuals supplement their retirement savings under structured and regulated environment.

the assessment post global financial crisis. Malaysia has also ranked fifth out of 189 economies for investor protection in the World Bank's Doing Business 2015 report.

18.57 The Corporate Governance Blueprint (CG) launched in 2011 provides the action plan to raise the standards of corporate governance in Malaysia. Subsequently, the Malaysian Code on Corporate Governance 2012 was launched to enhance board effectiveness of listed companies through strengthening board composition, reinforcing the independence of directors and fostering commitment of directors. In 2014, the Malaysian Code for Institutional Investors was launched providing a guideline and best practices collectively developed by Malaysia's largest institutional investors.

18.58 The financial services industry is constantly confronted with dynamic economic conditions and evolving financial environment. In line with the economic transformation, the financial sector will have to meet the demand from knowledge and innovation driven industries as well as enabling high value-added innovation-driven entrepreneurship. Currently, there is a lack of expertise within financial institutions to support risk assessment in new growth areas. There is also a need to address secondary market liquidity challenges such as demand for high-quality assets exceeding supply, increasing diversity in investment product and strategies, lowering transaction cost and expanding mechanisms and avenue for trading. In addition, the emergence of financial sector players with advance technology, which allows scalability in the offering of more innovative products and services through new delivery channels, will further intensify the competitive environment. Meanwhile, the increasing dependence on technology posed new challenges to the financial institutions with respect to malicious actions by criminal and other malefactors.

WAY FORWARD

Financial Sector

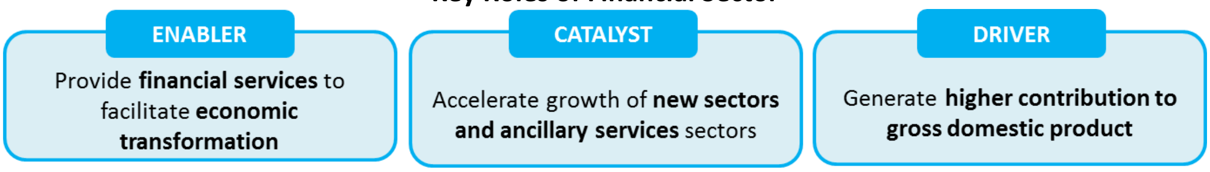
18.59 The financial sector will efficiently allocate resources for productive use not only in the domestic economy but also across borders. The financial system[3] is expected to grow at an annual rate of 8% to 11%, increasing the depth[4] of the financial system to 6 times of GDP in 2020. The financial sector contribution to nominal GDP is expected to increase between 10% and 12% by 2020.

[3] The size of the financial system is proxied by the sum of loans outstanding, stock market capitalisation and bonds outstanding. Bond outstanding refers to outstanding private debt securities and all Malaysian Government Securities, held by both residents and non-residents. Data excludes Cagamas bonds, short-term papers, Sukuk Perumahan Kerajaan (SPK) and issuances by non-residents.
[4] Financial system depth is the sum of loans outstanding, stock market capitalisation and bonds outstanding, relative to GDP. It reflects the extent of financing activity through financial intermediaries and markets.

18.60 Financing based on Islamic principles in Malaysia is expected to account for at least 40% of total domestic financing in 2020. Domestic Islamic finance industry is anticipated to grow further underpinned by greater reach and product innovation. The financial sector will play three key roles, which is enabler, catalyst and driver of the economy, as shown in *Exhibit 18-13*. This will encapsulate nine focus areas for development:

- Effective and efficient intermediation
- Strengthening regional and international financial integration
- Internationalisation of Islamic finance
- Developing deep and dynamic financial markets
- Financial inclusion for greater shared prosperity
- Regulatory and supervisory regime to safeguard financial system stability
- Electronic payments for greater economic efficiency
- Empowering consumers
- Enhancing talent development

Exhibit 18-13
Key Roles of Financial Sector



Source: Bank Negara Malaysia

Effective and Efficient Intermediation

18.61 The more advanced and differentiated needs of businesses and households need to be served in an effective and sustainable manner. Economic growth will be increasingly driven by more innovative and knowledge-intensive industries. Therefore, the spectrum of financial products and services will evolve to fit the financing, investment and protection needs of these economic agents.

Strengthening Regional and International Financial Integration

18.62 Stronger cross-border linkages, particularly with the advancement of the ASEAN Economic Community (AEC) and greater human capital mobility will enhance trade and investment opportunities. Greater foreign participation in the financial sector in the form of new licences, equity interest and domestic presence will be considered based on the best interest of Malaysia. The increasing cross-border interconnection will require enhanced coordination and cooperation among regulators to safeguard financial stability. Mutual recognition, consistency on prudential and market conduct standards including participation in supervisory colleges will be pursued to reduce any adverse contagion financial effects.

Internationalisation of Islamic Finance

18.63 Malaysia's strength as a global Islamic finance marketplace will continue to be reinforced. This will be achieved by introducing innovative Islamic financial products and services to meet the diverse global demands for Shariah-compliant financial solutions. Efforts will continue in enhancing the diversity of players within the industry, vibrancy in the Islamic financial markets and promotion of Malaysia as the reference centre for Islamic financial transactions.

Developing Deep and Dynamic Financial Markets

18.64 Efforts will also be directed towards further deepening the domestic financial markets and to enhance its connectivity to other financial markets in emerging economies. This is through the widening the range of instruments and admission of new market participants in the money, foreign exchange and government securities market. Greater cross-border activities will also require enhancements to current trading and settlement infrastructure.

Financial Inclusion for Greater Shared Prosperity

18.65 There will be continuous emphasis to ensure all Malaysians have access to high-quality and affordable financial services. This entails having convenient, effective and efficient access points as well as a comprehensive range of products and services for the underserved. Specific initiatives have been rolled out and will be continuously enhanced to maintain their relevance. This includes the introduction of agent and mobile banking, customised financing schemes for micro business and SME, and awareness programmes to enhance financial capability.

Regulatory and Supervisory Regime to Safeguard Financial System Stability

18.66 The foundations for stability of the overall financial system will be further strengthened through regulatory and supervisory regime to address potential risks emerging from the evolving financial landscape. This will take into account the global regulatory reforms in respect to the Basel III requirements and the overall needs of the Malaysian financial system. Additionally, the widened application of technology in the provision of financial services presents new challenges in risk management of cyber threats. For this, existing regulatory standards and guidance will continuously be reviewed and updated to further strengthen the information technology (IT) security standards across the financial sector.

Electronic Payments for Greater Economic Efficiency

18.67 Electronic payments will be promoted as the preferred medium for all economic transactions supported by an enabling infrastructure and regulatory support. These measures will be undertaken in concurrence with awareness enhancement initiative for user confidence to encourage greater utilisation by the public.

Empowering Consumers

18.68 A comprehensive approach to consumer protection and education will be put in place. Initiatives will be aimed at fair and equitable dealings by financial service providers ensuring all segments of society have the knowledge and capacity to manage and protect their personal wealth.

Enhancing Talent Development

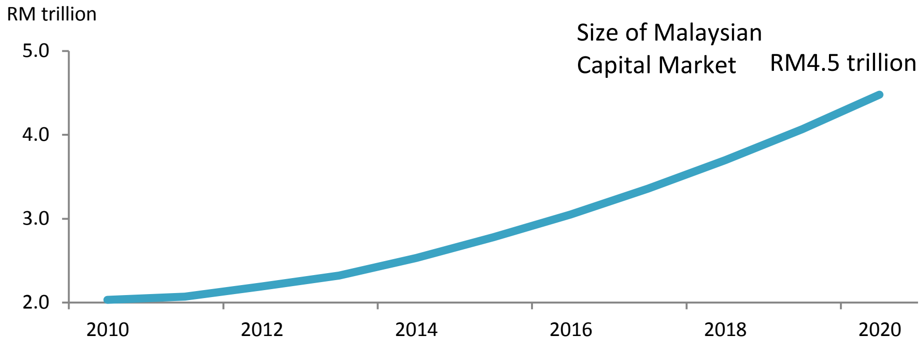
18.69 The financial sector will continue as a key contributor to labour productivity. Initiatives will be built on the Financial Services Talent Council established in 2014 aimed at ensuring a deep pool of high-quality talent and promoting Malaysia as a centre of excellence for financial sector education.

Capital Market

18.70 The Malaysian capital market has significant growth prospects and is estimated that the size of overall capital market will reach RM4.5 trillion by 2020, as shown in *Exhibit 18-14*. In addition, the Islamic capital market is projected to increase to RM2.9 trillion while assets under management in the investment management industry will rise to RM1.6 trillion.

18.71 The Securities Commission (SC) will focus on identifying and nurturing new opportunities, particularly in ancillary layers supporting intermediation activities. The development of more competitive niches will foster higher productivity and value-add activities. In matured segments such as the equity market, growth and innovation must be driven by the private sector. Growth of the capital market will be complemented by effective governance to sustain confidence in the integrity of the capital market and strong regulatory oversight to safeguard the interests of investors.

Exhibit 18-14
Malaysia's Capital Market (2010-2020)



Source: Securities Commission Malaysia

18.72 During the Eleventh Plan, the capital market development will focus on two broad areas, namely expanding the role of the capital market and governance strategies for investor protection. The strategies to further develop capital market are as follows:

A) Strengthening the role of the capital market
- Promoting capital formation
- Expanding intermediation efficiency and scope
- Deepening liquidity and risk intermediation
- Facilitating internationalisation
- Building capacity and strengthening information infrastructure

B) Governance strategies for investor protection
- Enhancing product regulation to manage risks
- Expanding accountabilities as intermediation scope widens
- Robust regulatory framework for a changing market landscape
- Effective oversight of risks
- Strengthening corporate governance and broadening participation

Promoting Capital Formation

18.73 Malaysia has sufficient domestic financial resources to finance higher levels of domestic investments, particularly in innovative enterprises to achieve higher growth. In view of this, a regulatory framework for equity crowdfunding (ECF) is being developed to widen the range of fundraising and investment products, as well as improve market access to a broader spectrum of issuers and investors. The framework will provide regulatory balance to promote a vibrant and functioning market space with the appropriate safeguards for capital formation. To cater for the rising demand of socially responsible and environmentally-conscious investments, socially responsible financing and investment will be further encouraged through the Sustainable and Responsible Investment (SRI) sukuk framework. The SRI sukuk initiative bridges the growing conventional SRI sector and Malaysia's well-developed Islamic finance industry. This initiative has the potential for the Islamic finance industry to grow its investor base among conventional SRI investors.

Expanding Intermediation Efficiency and Scope

18.74 The structural constraints to increase the efficiency of savings mobilisation and foster an innovative and diverse intermediation environment to expand the supply of assets will be addressed. This can be achieved through further developing the investment management industry. The growth drivers for this industry include the high savings rate in the country, compounding effects of investments and the establishment of the PRS industry. While the core intermediation industries are developed, there is room to explore growth opportunities in ancillary industries that support the capital market. Efforts will be made to develop capacity to offer end-to-end services and create an enabling market environment in the fund management industry.

Deepening Liquidity and Risk Intermediation

18.75 The role of secondary market liquidity in promoting investments becomes more important as the economy shifts from traditional manufacturing, towards services and innovation-based activities. This will shift the demand for tangible collateral to intangible assets and future values. It requires promoting greater diversification of portfolio asset allocation by the major domestic institutions. In addition, a vibrant and comprehensive derivatives market is required to reinforce dynamism in other segments of the capital market. There will also be continued efforts to increase market connectivity by promoting greater use of technology. Regulatory facilitation will be provided to promote greater cross-border transactions, particularly within ASEAN, in line with the aspirations to promote integration of capital markets in the region.

Facilitating Internationalisation

18.76 Greater internationalisation of the capital market will strengthen Malaysia's positioning as a global Islamic capital market hub. Internationalisation strategies will be targeted towards increasing international participation and strengthening the ability to build scale and clear business opportunities. ICM's international investor base will be strengthened through widening the range of Shariah-compliant products, increasing the diversification of Islamic investment strategies and increasing international collaboration in Shariah research and product development.

18.77 The growth sustainability in the ICM can be further achieved by capitalising on new hub opportunities, notably in the Islamic fund and wealth management segment. This can be made possible by expanding the intermediation activities into high value-added areas by leveraging on the country's extensive capabilities and infrastructure in Islamic finance. The development of a comprehensive and holistic blueprint for the Islamic fund and wealth management industry is critical for the purpose of charting its medium- and long-term strategic direction and competitive positioning. Strategies to support the sustainability of the industry will include, among others, drawing greater participation by large domestic institutional investors into a more diverse range of Shariah-compliant investment products. This will enable the Islamic fund management companies to develop scale and enhance their global capabilities and competitiveness.

Building Capacity and Strengthening Information Infrastructure

18.78 Capital market intermediaries will increasingly need to adapt to a changing workforce and pervasive use of technology. Knowledge, skills and capacity for innovation will progressively define competitive advantage and economic growth potential. Strategies will be directed at strengthening the knowledge base through talent development to support the expansion of the capital market into high value-add areas. An area of focus is on increasing the supply of professionals to support growth of the capital market as well as enhancing board effectiveness and professionalism. This will be complemented by building a strong information infrastructure to address information asymmetries and promoting service innovation and efficiency in the current highly digital environment.

Enhancing Product Regulation to Manage Risks

18.79 A conducive environment for innovation in financing economic activities will be fostered. This is best achieved through increasing the efficiency in assessing the quality of products while ensuring that financial innovation benefits investors. In addition, to cater for broadening varieties of products, the framework for fund raising and product offerings will be streamlined to increase process efficiencies. Disclosure and other regulatory requirements will be refined to ensure adequate safeguards against risks to investors and market integrity are maintained.

Expanding Accountabilities as Intermediation Scope Widens

18.80 Enabling environment for participants to broaden intermediation activities and strengthen industry capabilities and standards will be enhanced. The regulatory framework will be streamlined and strengthened to facilitate greater variation of products and efficiency in businesses. This is to maintain integrity of business conduct and performance of fiduciary duties to sustain investor confidence.

Robust Regulatory Framework for A Changing Market Landscape

18.81 Amidst the changing competitive market dynamics dominated by financial innovation and technological advances, the priority is to adopt a consistent approach to regulate markets. This will ensure efficiency of capital allocation and investor protection. There will be a need to review the definition of markets and the responsibilities of participants that provide services which fall within the ambit of operating a public market. The regulatory duties of traditional exchanges will also be reviewed. Broad regulatory changes will be considered towards improving the level of transparency and fairness among participants to enhance market quality.

Effective Oversight of Risks

18.82 Regulatory coverage, capacity and tools to ensure effective supervisory reach and oversight of risks will be expanded. Efforts will be undertaken to ensure that appropriate oversight arrangements are in place even as the parameters and boundaries of regulation shift. In addition, the technological advancement and innovation in the capital market offer increasingly sophisticated investment products, which require active investor participation and education. Investors outreach programmes to promote more informed investor participation by educating them on their rights and responsibilities, as well as regulatory safeguards and available redress mechanisms are already in place. Moving forward, efforts to empower investors through education will continue to be an area of focus.

Strengthening Corporate Governance and Broaden Participation

18.83 The effectiveness of corporate governance through broad-based approaches to promote greater stewardship, more active shareholder participation and gate-keeping accountabilities will be strengthened. Active participation of stakeholders in shaping intermediation and corporate behaviour will be promoted along with inculcation of culture of integrity and increased emphasis on socially responsible goals.

18.84 Diversity is a critical attribute of a well-functioning board and an essential measure of good governance, enabling optimal decision making by harnessing different insights and perspectives and challenging conventional wisdom. As such, the diversity agenda will be further expanded to encapsulate not only gender but also age and ethnicity. The Public Listed Companies are required to disclose their diversity policies for board and workforce in all annual reports issued on or after 2 January 2015.

Transforming Services Sector:

Tourism Industry

PROGRESS

WAY FORWARD

Enhancing Tourism Products

Upgrading Service Quality

Restrategising Marketing and Promotion

Improving Governance

Intensifying Domestic Tourism

Strategy Paper

18C

PROGRESS

18.85 The global tourism industry recorded a growth of 4.1% during the Tenth Malaysia Plan despite challenges such as the slowdown in the US and Euro zone economy. On the home front, the number of international tourist arrivals grew by 11% from 24.7 million in 2011 to 27.4 million in 2014. The positive performance was attributed to sustained branding of Malaysia as a leading tourist destination, and promotional programmes under the Visit Malaysia Year 2014. Malaysia garnered RM72 billion worth of tourist receipts in 2014. The momentum is expected to be maintained through the promotion of Malaysia Year of Festivals 2015. Selected tourism indicators are as shown in *Exhibit 18-15*.

Exhibit 18-15
Selected Tourism Indicators (2010-2020)

Indicator	Year		
	Actual	Estimate	
	2010	*2015*	*2020*
Number of Tourist Arrivals (mil)	24.6	29.4	36.0
Total Tourist Receipts (RM bil)	56.5	89.0	168.0
Per Capita Expenditure (RM)	2,297	3,027	4,667
Employment ('000)	1,842.6	2,076.3	2,339.6

Source: Department of Statistics Malaysia and Tourism Malaysia

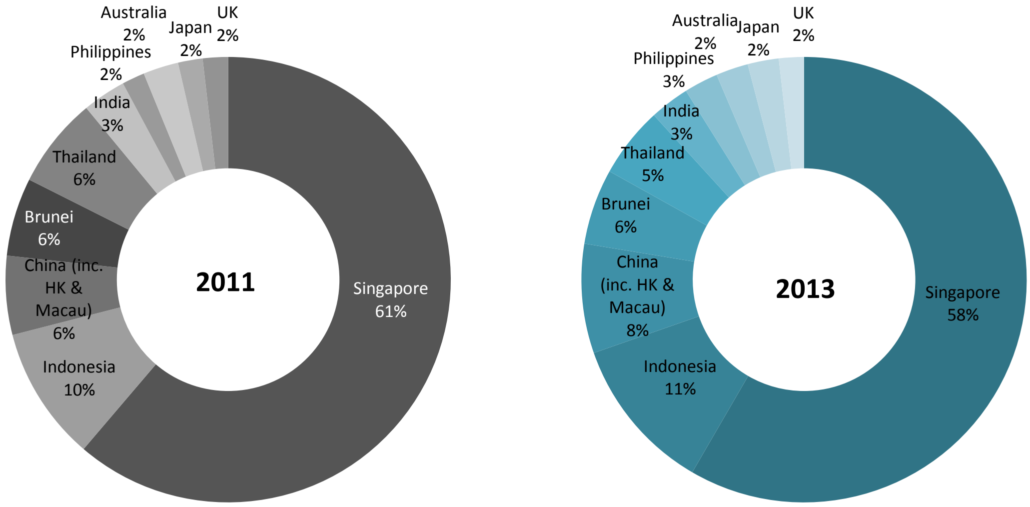
18.86 Malaysia continued to be ranked among the United Nation World Tourism Organisation (UNWTO) top-ten list of countries with highest tourist arrivals for two consecutive years, from 2011 to 2012. The MH370 and MH17 incidents in 2014 posed a daunting challenge to the tourism industry. A crises management committee was set up by the Tourism Malaysia in Beijing, Shanghai and Guangzhou, China to mitigate the impact of the incident. Promotional activities were halted in April 2014 to respect the Chinese sensitivity of the MH370 tragedy. The Mega Familiarisation (MegaFam) programme was carried out for destinations such as Penang, Royal Belum Rainforest and Pulau Redang to restore confidence of the international travel and tour operators, and the media.

18.87 In 2013, ASEAN remained the largest contributor with 19.1 million arrivals, representing 74.3% share of the overall tourist arrivals in Malaysia. Consistent with the international trend of the industry which usually draws tourists from the nearest geographical markets, China continued to be Malaysia's most important market after ASEAN. The trend of tourist arrivals from the top ten countries is as shown in *Exhibit 18-16*.

18.88 During the Tenth Malaysia Plan period, domestic tourism gained momentum in line with rising disposable income. The number of domestic visitors grew 32.4% from 115.5 million in 2010 to 152.9 million in 2013. Domestic tourists spent RM54 billion in 2013, an increase of 55.6% compared with RM34.7 billion registered in 2010.

Exhibit 18-16

Malaysia's Top Ten Tourist Arrivals by Country, 2011 and 2013



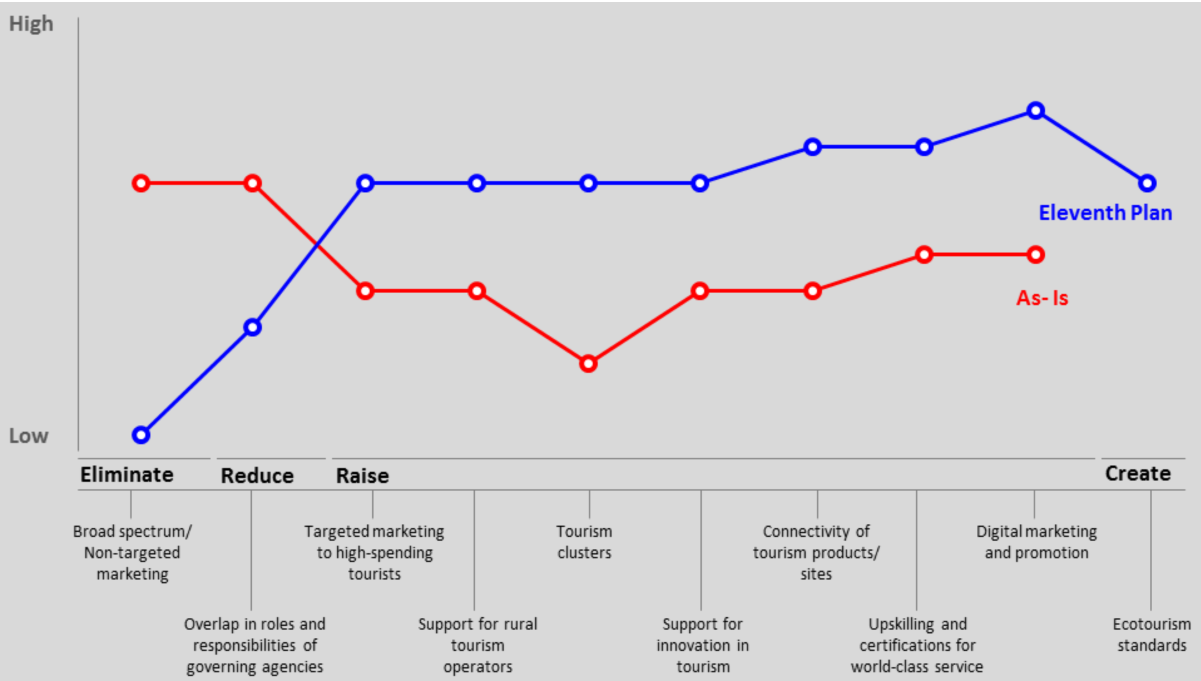
Source: Tourism Malaysia

18.89 Malaysia has established an excellent tourism branding compared with her competitors. However, the biggest challenge is to capture more high spending tourists to visit Malaysia. Issues related to health and hygiene, accessibility to key destinations, connectivity between tourist destinations and environment affected tourist experience. Cultural heritage and natural resources, which are highly appealing to the more sophisticated markets are not optimally utilised, hindering the development of a sustainable and vibrant tourism industry. In addition, utilisation of e-marketing and mobile application is still lacking, affecting the outreach to a larger market.

WAY FORWARD

18.90 The Plan will focus on capturing the high yield tourists to stimulate the industry's contribution to the economy. Domestic tourism will be harnessed to further increase the vibrancy of the industry. The aim is to increase visibility by highlighting Malaysia's uniqueness and strengths through targeted promotional activities. Tourist arrivals to Malaysia are targeted to grow at an average rate of 4% per annum from RM29.4 million in 2015 to reach 36 million in 2020. Receipts are targeted to grow at an annual average rate of 13.6% from RM89 billion in 2015 to reach RM168 billion in 2020. The tourism industry is projected to provide 2.34 million jobs, as illustrated in *Exhibit 18-15*.

Exhibit 18-17
Strategy Canvas for Tourism Industry



18.91 The strategy canvas for the tourism industry is as shown in *Exhibit 18-17*. The globally expanding affluent middle class, faster pace of life and different trend of travel from destination-based to experience-based will shape the strategies to capture high net worth tourists. There will be a shift in developing the tourism industry towards emphasising on knowledge-intensive niche areas, creating high-income job and transforming the industry from high volume to high yield. Moving forward, the following strategies will be pursued:-

- Enhancing tourism products
- Upgrading service quality
- Restrategising marketing and promotion

- Improving governance
- Intensifying domestic tourism

Enhancing Tourism Products

18.92 Product development and promotion will be driven by a cluster-based approach, which link major tourist attractions, facilities and supporting infrastructure in a particular destination. This will enhance the appeal of tourist destinations and lead to longer stay and higher spending. During the Plan period, clusters consisting of tourism products that are iconic, driven by catalytic investors and able to attract high yield tourists will be promoted. In addition, a pro-business environment will continue to be provided for investors in developing tourism infrastructure and facilities. Focus will be given on the following:-

- **Ecotourism** will be positioned as a premier segment of the tourism industry by leveraging biodiversity assets through extensive branding and promotion. This segment will be developed to attract high spending ecotourists. Any development on ecotourism sites such as the Royal Belum Rainforest, Danum Valley, Mulu National Park, National RAMSAR sites and islands will be closely monitored to ensure sustainability of the environment and biodiversity assets are protected. As such, synergistic partnership between government agencies such as the Forestry Department and private operators will be fostered. The development of ecotourism will offer greater opportunities to the locals, particularly in the rural areas to participate in tourism-generated activities and serve as an income source to raise living standards.
- **Heritage sites, and cultural products** such as traditional dances, arts and handicrafts will be promoted to add value to tourist experience. Existing museums will be leveraged through enrichment programmes and twinning exhibitions with museums around the world. Promotion of the National Museum and unique heritage museums such as the Islamic Art Museum, Sarawak Museum and the Baba Nyonya Heritage Museum in Melaka will be further intensified. Culture and arts catalysts such as the Istana Budaya, Kraftangan Malaysia and Lembaga Pembangunan Seni Visual Negara will be strengthened in terms of their product offerings. The *Akademi Seni Budaya dan Warisan Kebangsaan* (ASWARA) will be upgraded from an academy to a university producing high quality art performers and practitioners. These initiatives will result in artistic and cultural vibrancy, and increase demand for highly trained personnel and performers, thus creating high paying jobs.
- **Meetings, Incentives, Conventions and Exhibitions (MICE)** will continue to be promoted. The private sector will be encouraged to invest in MICE facilities, and bid for business and international events to be hosted in Malaysia. Event managers will be encouraged to collaborate with local authorities and Land Public Transport

Commission (SPAD) to provide public transport services connecting MICE facilities and other tourism spots to facilitate mobility of participants during event periods.

- Promotional campaigns will be intensified to promote Malaysia as top-of-the-mind **shopping** destination in Asia Pacific. More events and promotional activities such as fashion and cultural shows will be held at key shopping areas. Service quality of front liners at retail outlets will be improved through continuous training and rewarding excellent performers. In addition, collaboration between Kraftangan Malaysia and the private sector will be enhanced to increase visibility of local handicrafts such as Malaysian batik, *pasu* Sarawak and *labu sayong*, at shopping malls and retail outlets.
- The global **Muslim travel market** estimated at RM453.3 billion in 2013, is expected to reach to RM647.6 billion by 2020. As such, efforts to promote Malaysia as a Muslim-friendly destination will be intensified to capture the potential of the growing market. The newly developed Muslim-friendly Hospitality Services (MFHS)[5] Standard, which sets service quality standards on accommodation, travel packages and tourist guides, will be used to guide local industry players to uphold integrity of Islamic tourism products and services. This will assist in maintaining Malaysia's ranking as the top Muslim-friendly tourism destination in the world.

18.93 The value of tourism products will be enhanced to enrich and provide unique tourists' experience. This can be achieved through product differentiation, presentation, interpretation and service quality. Product owners will be encouraged to provide information boards in different languages, guided tour service and interpretive centres to explain the history or significance of the product. An initiative to reward innovation will also be introduced to encourage industry players in developing unique and iconic tourism products. In addition, a two-tier pricing system for international and domestic tourists to access public and private tourism sites will be encouraged. This will assist product owners in maintaining and sustaining the value of tourism products.

18.94 Industry players will be encouraged to subscribe to ecolabels such as Green Globe or sustainability certification deemed necessary to attract tourists who are willing to pay a premium for an environmentally-friendly stay. The Malaysia Tourism Quality Assurance (MyTQA)'s criteria will be developed to acknowledge tourism products which have met specified standards. This will encourage the industry players to embrace sustainability certification and best practices to transform tourism into an economically, socially and environmentally sustainable industry.

[5] The Muslim-friendly Hospitality Standard (MFHS)[5] was jointly developed by the Department of Standards Malaysia, Standards and Industrial Research Institute of Malaysia (SIRIM), Islamic Tourism Centre Malaysia and International Islamic University Malaysia.

18.95 Local authorities will be tasked to enhance the maintenance of tourism sites and facilities to ensure safety of tourists and to maintain attractiveness of the products. Meanwhile, cleanliness of tourism facilities will be improved to ensure high standard of hygiene and comfort level on par with that of a developed country.

Upgrading Service Quality

18.96 In meeting the demand from high yield market segments, the quality of human capital will be strengthened through training. The Ministry will collaborate with institutions of higher learning and the industry players to review and improve training modules, to increase the level of professionalism and meet the industry demand. The successful model of the Langkawi Tourism Academy will be replicated to other community colleges to produce more high skilled personnel for the industry. In addition, training programmes for front liners will be strengthened to produce more master trainers to enable tourism associations to carry out in-house training.

18.97 The quality of service provided by homestay operators will be further strengthened by ensuring greater compliance to the homestay guidelines. Best practices in hygiene and cleanliness will be given emphasis in homestay training. Homestay and tour operators will jointly develop tour packages to enhance tourist experience in villages. With better service quality, rural communities will be able to charge at higher price and earn better income.

Restrategising Marketing and Promotion

18.98 There will be a shift from marketing and promotion based on geographical segmentation, to targeted marketing and promotion based on niche markets. Focus will be given to ecotourism, shopping and MICE segments to capture high spending tourists. In addition, special interest packages will be extended to activities and events such as golfing, cycling, and wedding and honeymoon.

18.99 Tourism Malaysia will fully embrace digital marketing and promotion by emphasising the use of interactive tools and innovative social media to offer customised tourist experiences according to the needs of specific market segment. The social media will be used to capture the tourist market, as online advisory and reviews are becoming increasingly popular in assisting travellers to make informed decisions. Industry players will be encouraged to realise the full potential of digital marketing by leveraging Tourism Malaysia's existing platform. Elements of user-friendliness, levels of interactivity and content of the platform will be enhanced.

Improving Governance

18.100 Integrated development and implementation of tourism products and facilities will be enhanced between Federal Government, state governments and local authorities. This is to achieve efficiency and effectiveness in sustainable tourism development and enable optimal utilisation of resources. All tourism projects will be developed in accordance to the national tourism policy. The Ministry of Tourism and Culture will play an active role in engaging stakeholders to improve tourism products and activities.

18.101 Tourist safety and security in major cities and tourism sites, particularly especially those involving water and physical activities will be further strengthened. The following efforts will be implemented by the local authorities and relevant agencies, and led by the Ministry of Tourism and Culture:-

- upgrading and enforcing safety standards at tourism sites;
- ensuring tourism operators comply to safety standards through licensing of high risk sporting activities;
- conducting regular checks and inspections of tour vehicles;
- implementing clear demarcation of areas for water activities;
- providing tourist police units in major cities; and
- placing security forces in high risk areas.

Intensifying Domestic Tourism

18.102 The support of the locals is important to the development of the tourism industry. Promotional efforts for domestic tourism will be further promoted to encourage travel among Malaysians. Promotion and campaigns will also be aligned to holiday periods to encourage domestic tourism. “Voluntourism” and student tourism programmes will continue to be promoted. This is to cultivate a touring culture among youth, encourage appreciation of natural, historical and cultural heritage, and develop passionate stewards of the environment.

Transforming Services Sector:

Wholesale and Retail Trade

Strategy Paper

18D

PROGRESS

18.103 The wholesale and retail trade is one of the biggest subsectors in the economy, which contributes substantially to economic growth, provides employment and entrepreneurship opportunities as well as enhances social wellbeing. The subsector registered an average growth rate of 6.7% annually and its contribution to GDP increased from 13.9% in 2011 to 14.7% in 2013. Employment is expected to increase from 1.9 million in 2011 to 2.4 million in 2015, representing 17.5% of overall employment in the services sector. The steady growth of the subsector, particularly retail trade, was largely attributed to the increase in private consumption and tourist spending. The steady growth in retail trade led to global recognition, whereby Malaysia was ranked 9th from 30 emerging economies in the 2014 Global Retail Development Index by A.T. Kearney. Malaysia's scores in the index indicate high level of market attractiveness and saturation. This signals stiffer competition in domestic market and the need for local players to venture abroad.

18.104 The retail trade subsector recorded the highest number of establishments at 253,579 or 69.5% of total establishments in the subsector in 2013. The structure and size of retail trade continued to change with the increasing number of modern retail formats such as hypermarket, convenience store, retail chain, specialty store, premium outlet and e-commerce. These modern retail formats, especially hypermarkets not only provided employment opportunities but also offered wider product range and competitive prices for consumers. In addition, e-commerce transaction grew more popular and generated RM53.5 billion in value added in 2013 as more businesses and entrepreneurs offered online services. Hypermarkets had also rolled out online sales and home delivery services offering customers convenience and created job opportunities for Information Technology (IT) support personnel.

18.105 The modernisation programme of traditional retailer via the Small Retailer Transformation Programme (*TUKAR)* was introduced in 2012 in collaboration with hypermarkets and large cooperatives. At end 2014, a total of 1,914 mom-and-pop stores nationwide participated in the *TUKAR* programme including 415 retail shops owned by cooperatives. A majority of the *TUKAR* programme participants recorded higher sales after joining the programme.

18.106 Franchise industry registered strong annual growth rate of 19.7% as the number of franchisors increased to 693 in 2013 compared with 404 in 2010. During the same period, total revenue generated by franchise industry increased by 10.1% to RM24.6 billion despite the drop in the number of franchisees to 4,892 from 5,138. While the industry had undergone consolidation, same store sales of popular franchise brands grew at a steady pace. Export of Malaysian owned franchise increased due to better branding and new market penetration. In 2013, 58 franchisors opened 2,119 outlets in 53 countries compared with only 29 franchisors that opened 174 outlets in 49 countries in 2010, reflecting an impressive achievement of Malaysian franchisors abroad.

18.107 Several legislations were amended and enforcement efforts strengthened to improve consumer protection. The Price Control and Anti-Profiteering (Amendment) Act (PCAPA) was enforced in 2011 to protect consumers from unscrupulous traders. The amendment empowered local council to assist in price watch control. Several initiatives in collaboration with private sector and cooperatives were undertaken to produce low price items under the *1Malaysia* brand to ease the burden on rising cost of living on the rakyat.

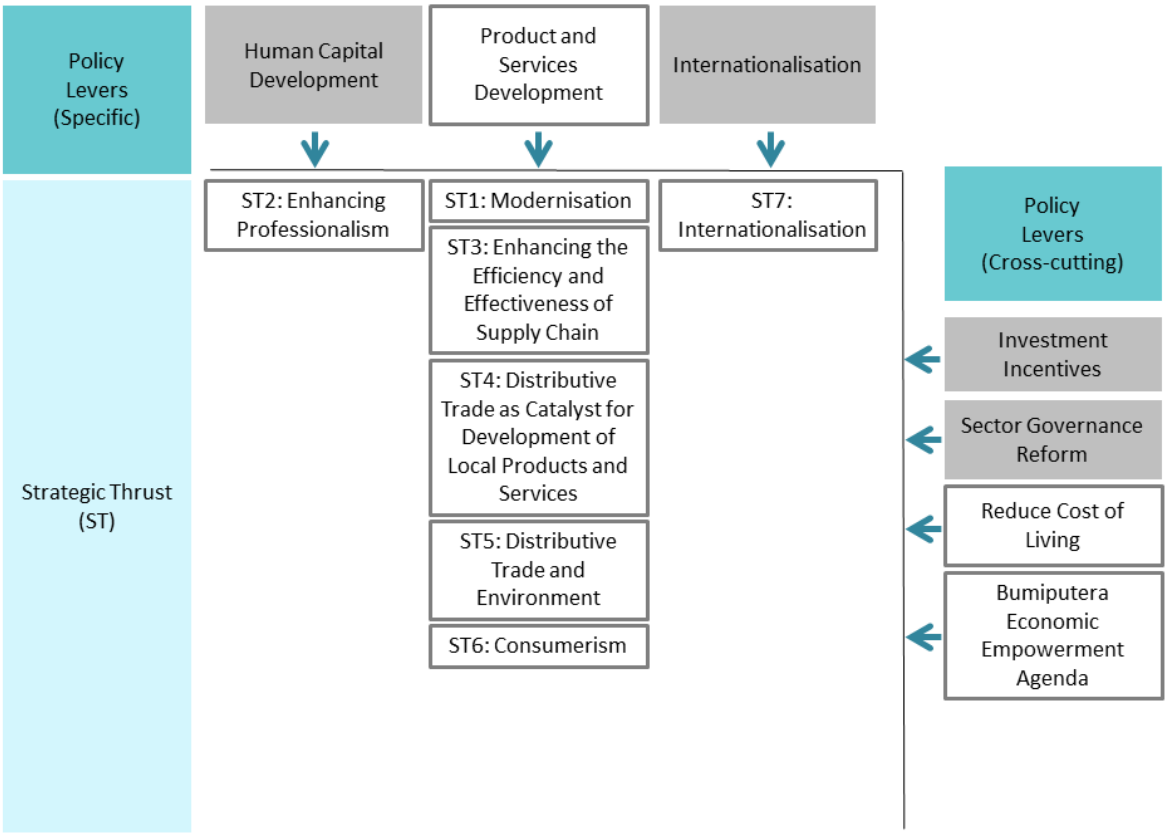
18.108 Despite positive growth experienced by wholesale and retail trade subsector, there are issues and challenges that impede its quality growth. Productivity remains an issue, particularly in the retail trade due to its dependency on low skilled labour. In 2013, the productivity level of wholesale and retail trade at RM51,103 was below that of services sector, and four times below that of Australia, Singapore and the United States. Given that 79% of retail trade establishments comprised micro enterprises, they are relatively slow in embracing modernisation due to high investment cost and lack of interest among traditional retailers and cooperatives. Malaysian retailers, particularly SMEs tend to be inward looking since domestic market is deemed to offer sufficient opportunities and lack capacity to venture abroad. In addition, the level of consumer awareness and protection is low due to lack of comprehensive consumer protection ecosystem.

WAY FORWARD

18.109 In the Eleventh Plan, emphasis will be given to enhance productivity, modernise retail trade, increase internationalisation, and raise consumer education and protection. The wholesale and retail trade subsector is expected to grow further, underpinned by the anticipated increase in private consumption, higher tourist spending and positive economic growth. The subsector is forecasted to achieve an average annual growth rate of 5.8% and contribute 14.7% to the GDP, while employment is expected to increase to 2.9 million by 2020.

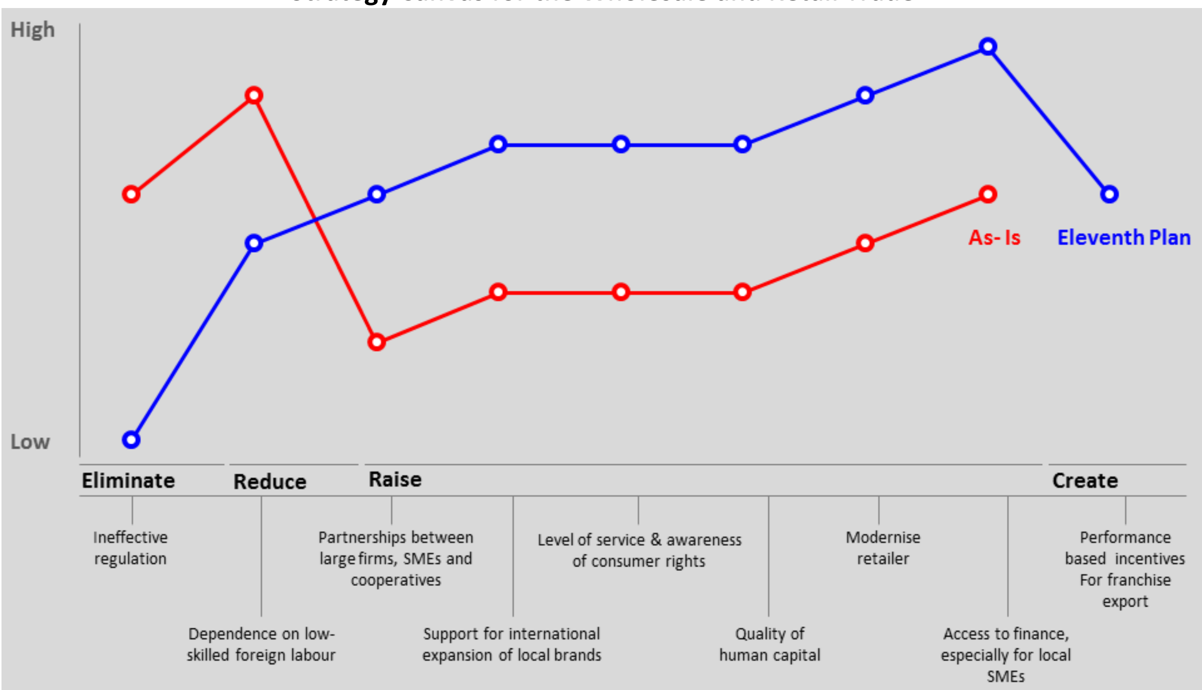
18.110 The strategic thrusts entrenched in the Distributive Trade Masterplan (2010-2020) for wholesale and retail trade subsector will be integrated with the policy levers under the Services Sector Blueprint. The integration will serve as an overall policy direction for the subsector in the Plan period, as shown in *Exhibit 18-18*.

Exhibit 18-18
Overall Policy Direction



Source: Services Sector Blueprint, Distributive Trade Masterplan 2010-2020

Exhibit 18-19
Strategy Canvas for the Wholesale and Retail Trade



18.111 The strategy canvas in *Exhibit 18-19* summarises the strategies to further elevate the growth of wholesale and retail trade subsector during the Plan period. Strategies to achieve quality growth and enhance consumer welfare are as follows:

- Improving productivity
- Modernisation of retail trade and cooperative
- Raising the quality of products and services
- Enhancing internationalisation
- Raising consumer protection

Improving Productivity

18.112 Retail trade will be improved through targeted intervention and support to drive improvement in achieving specific performance outcome. The initiatives will be undertaken by the Ministry of Domestic Trade, Cooperatives and Consumerism (KPDNKK) in partnership with MPC, SME Corp and industry associations. Promotion of technology and e-commerce will be continued to reduce the number of unskilled labour.

Modernisation of Retail Trade and Cooperative

18.113 Retail trade and cooperative modernisation will be enhanced through the adoption of modern formats, technology and e-commerce. Training programmes on the management of modern businesses will be intensified to enable SMEs to undertake and implement new approaches in wholesale and retail. Greater collaboration between hypermarkets and traditional retailers similar to TUKAR initiative will be encouraged. Franchise scheme will be promoted to modernise traditional retailers and boost exports. Development of e-commerce will be boosted through reviewing regulatory framework and putting in place guidelines and measures to increase sales and consumer protection.

Raising the Quality of Products and Services

18.114 Quality of products and level of services will need to conform to the international standards. The Distributive Trade Council will develop indices to measure level of service quality and consumer satisfaction. The Council will foster greater collaboration between industry associations and institutions of higher learning to enhance training programme.

Enhancing Internationalisation

18.115 Franchise has been identified as one of the proven approaches to raise the internationalisation of local brands and service providers. Collaboration among the relevant stakeholders will be strengthened to raise capacity building and export promotion. Performance-based incentives will be introduced to increase export revenue of local franchisors. In addition, co-operatives will also be encouraged to leverage their extensive network and large membership to develop franchises. An integrated database on franchising will be established to provide for better planning, monitoring and collaboration among franchise entrepreneurs.

Raising Consumer Protection

18.116 KPDNKK will roll out various initiatives to empower consumer, improve consumer protection and enhance self-regulation among traders. These initiatives include strengthening related policies and regulations, enhancing efficient and effective consumer complaints mechanisms, and increasing consumer awareness of goods and services safety standards. These initiatives will be undertaken in partnership with the NGOs, Ministry of Education and industry associations. Businesses will be encouraged to voluntarily implement refund policy. In addition, level of awareness on sustainable consumption and production will be increased to support green growth.

18.117 KPDNKK will continue to enforce the PCAPA to protect consumers from unscrupulous traders following the implementation of the goods and services tax (GST) in 2015. Greater cooperation from NGOs, Consumers' Associations and community leaders will be strengthened to closely monitor prices of goods and services to curb profiteering.

Transforming Services Sector:

Professional Services

PROGRESS

WAY FORWARD

Reviewing Regulatory Framework

Improving Quality of Human Capital

Enhancing Exports

Strategy Paper

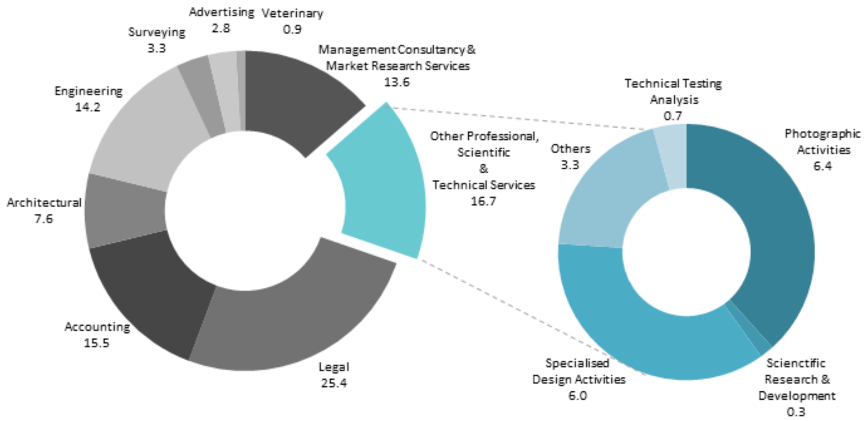
18E

PROGRESS

18.118 The professional services[6] subsector grew 9.8% annually from 2011 to 2013. The subsector contributed 1.3% to the GDP in 2013 compared with 1.1% in 2010. Employment in the sector grew 23% from 137,812 jobs in 2010 to 169,513 jobs in 2012. In 2013, the subsector recorded productivity level of RM82,418 as compared to RM63,753 for the overall services sector. Labour productivity increased 7.2% exceeding the 2.1% growth rate registered for the overall services sector from 2010 to 2013.

18.119 The number of professional services firms increased from 19,215 in 2010 to 20,372 in 2012. The distribution of establishments in the professional services is shown in *Exhibit 18-20*. As of 2011, exports of professional services from Malaysia were limited to only 80 professional affiliates[7] operating abroad with 5,946 employees and RM375 million in value-added generated.

Exhibit 18-20
Establishments in the Professional Services Subsector, 2012



Source: Department of Statistics Malaysia

18.120 During the Tenth Plan, the Government introduced the Limited Liability Partnerships Act 2012 to support start-ups and SMEs to grow their businesses without risking personal liabilities and assets. This landmark initiative is expected to drive the growth of the professional services subsector. In addition, the professional services subsector was autonomously liberalised in 2012 involving architecture, engineering, surveying, specialised medical and dental. Thus, the Legal Profession Act (Amendment) 1976 and the Legal Profession (Licensing of International Partnerships and Qualified Foreign Law Firms and

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[6] Professional services subsector comprises a range of specialised services activities. Activities such as accounting, architecture, legal and engineering, which are regulated by respective professional boards and acts of Parliament, while activities such as advertising, management consultancy and research services are unregulated.

[7] Affiliates abroad refer to the companies operating outside Malaysia, controlled by Malaysia's ultimate parent companies (holding of equity interest is more than 50%). They could be branches, subsidiaries or joint venture companies.

Registration of Foreign Lawyers) Rules 2014 was enforced on 3 June 2014. One of the amendments made was on "fly-in fly-out", which will now allow a foreign lawyer advising on non-Malaysian law to be able to come to Malaysia and work on a project for up to 60 days in a calendar year, subject to approval by the Department of Immigration. Meanwhile, amendments were also made to the Registration of Engineer's Act 1967 and Architects Act 1967.

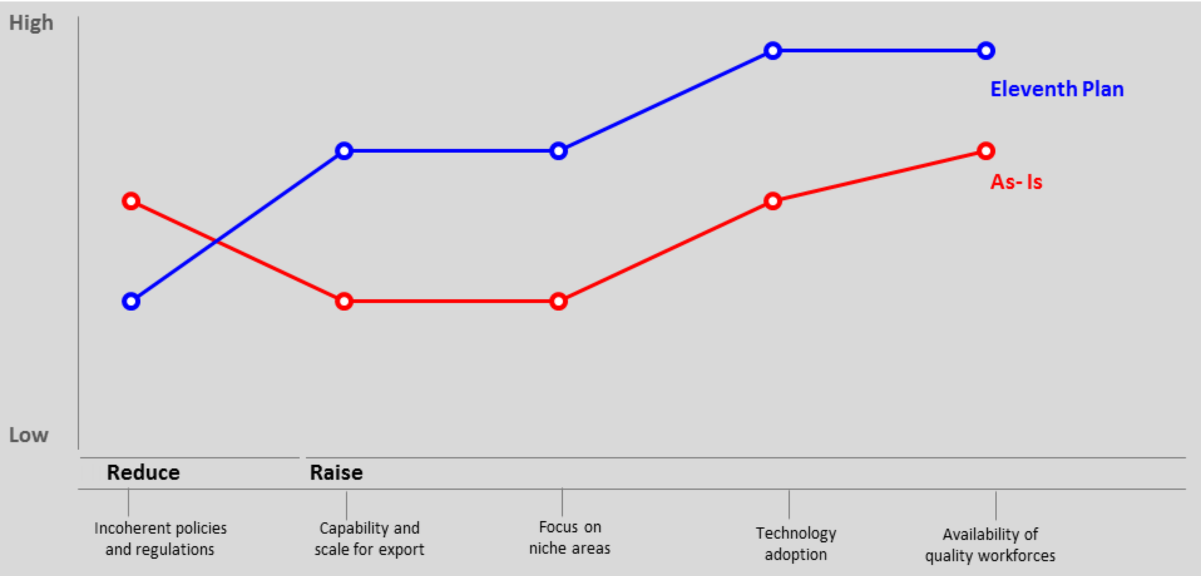
18.121 Malaysia has also committed to opening Mode Three, which is commercial presence abroad and Mode Four allowing movement of natural persons in selected Free Trade Agreements (FTAs) as shown in *APPENDIX*. Malaysia has also signed seven MRAs with ASEAN countries involving engineering, architecture, nursing, dental, medical, accounting and surveying professions. This will allow Malaysian professionals to compete regionally and capture export opportunities when AEC is fully implemented.

18.122 Despite positive growth experienced by professional services subsector, there are issues and challenges that impede its performance. Professional services sector in Malaysia is dominated by SMEs, which lack capacity to adopt technology and capability to compete abroad. In addition, the regulatory framework, which cuts across various agencies at different levels of government results in difficulty for the industry players to understand and comply with the regulations, leading to higher cost of doing business. The professional services also face talent shortage as graduates lack the required technical and soft skills and the ability to work across different cultures. The shortage of specialised talent in niche industries such as oil and gas, aviation maintenance, repair and overhaul (MRO) and construction is hampering the growth of these industries.

WAY FORWARD

18.123 Business and professional services play a significant role in raising productivity and creating knowledge-intensive job opportunities. In the Eleventh Plan, the focus is to transform the subsector by raising quality of human capital, undertaking regulatory reform and enhancing exports. Malaysia will also be promoted as an outsourcing centre for professional services to expand export opportunities in knowledge-intensive areas. The strategy canvas in *Exhibit 18-21* presents the initiatives for the subsector.

Exhibit 18-21
Strategy Canvas for Professional Services



18.124 During the Eleventh Plan, professional services are expected to grow underpinned by the anticipated positive economic growth. The sector is forecasted to contribute 2% to the GDP by 2020. Employment in the subsector is expected to increase to an estimated 230,000 jobs by 2020 from 169,513 jobs in 2012.

18.125 In the Plan period, strategies to further develop the professional services subsector are as follows:

- Reviewing regulatory framework
- Improving quality of human capital
- Enhancing exports

Reviewing Regulatory Framework

18.126 Initiatives under the sectoral governance reform include reviewing regulations and simplifying entry requirement to the respective professions. For example, to facilitate the return of Malaysian accountants practising abroad, their experience gained prior to joining the Malaysian Institute of Accountants will be taken into consideration when applying for an audit license. For the legal sector, the prohibition against advertising will be lifted.

Improving Quality of Human Capital

18.127 A greater partnership between the industry and learning institutions will be encouraged to enhance training programmes to fulfil industry's requirement and ensure talent produced have the necessary industry exposure. A structured industry internship for vocational and tertiary students for specific courses will be established to create a pool of qualified workforce in niche industries such as oil and gas services and MRO. Current internship programmes will also emphasise on building soft skills capabilities. In addition, to address talent shortages, temporary work permits to qualified foreign students graduating from Malaysian universities will be continued.

Enhancing Exports

Building Capability and Scale for Internationalisation

18.128 Professional services firms will be encouraged to build capability and scale in niche areas through partnership with larger corporations or form multi-disciplinary consortia when bidding for projects either domestically or internationally. In this regard, the government will review its procurement policy to facilitate capacity building by giving preference to consortia. This will enable professional services firms to leverage on the trust, network, synergy, and shared technical know-how that are established when venturing abroad. Meanwhile, the SEF will assist service providers in securing opportunities abroad. The Fund covers activities such as tendering, negotiating and conducting feasibility studies for international projects and export promotion. The Exporters' Development Programme (EDP) under MATRADE will be enhanced through a demand-driven tailored programme by providing knowledge on market access, global trade requirements, trade practices and advisory services.

Optimising FTAs and MRAs

18.129 Professional services firms will be encouraged to use FTAs and MRAs to facilitate internationalisation. Non-tariff barriers in targeted markets will be reduced through effective government to government negotiations. A monitoring and evaluation mechanism will be established to track progress and follow-ups to ensure success. The industry will also be encouraged to provide feedback to the Government on the challenges they faced when venturing abroad.

Transforming Services Sector:

Private Higher Education

PROGRESS

WAY FORWARD

Enhancing Quality Services

Enhancing Good Regulatory Practices

Improving PTPTN

Intensifying Internationalisation

Strategy Paper

18F

PROGRESS

18.130 In the Tenth Plan, private higher education was one of the National Key Economic Areas (NKEA) to position Malaysia as a leading destination for education and develop highly-skilled workforce. Private education grew 7.3% annually from 2011-2014 and contributed RM34.3 billion to the GDP in 2014. Efforts undertaken by the Government such as enhanced marketing and branding, and development of educational hubs have encouraged the establishment of more private higher education institutions (PHEIs) as shown in *Exhibit 18-22*. In 2012, the Government liberalised the education sector, allowing 100% foreign equity participation in PHEIs with university status. Following the liberalisation exercise, the Private Higher Educational Institutions Act 1996 (Act 555) was amended, and enforced in 2014.

Exhibit 18-22

Private Higher Education Institutions (PHEIs)

Year	University	University College	Foreign Branch Campuses	College	Total
2010	47	21	5	403	476
2014	59	32	9	433	533

Source: Ministry of Education

18.131 Student enrolment in PHEIs increased by 22% from 428,973 in 2011 to 523,452 in 2013. Traditionally, majority of students in PHEIs were enrolled in institutions with college status. However, with the increase in PHEIs attaining university status and better accessibility, enrolment to these universities has escalated as shown in *Exhibit 18-23*.

Exhibit 18-23

Student Enrolment in PHEIs

Year	University	University College	Foreign Branch Campuses	College	Total
2011	202,714	40,651	8,107	177,501	428,973
2013	270,687	16,259	39,407	197,099	523,452

Source: Ministry of Education

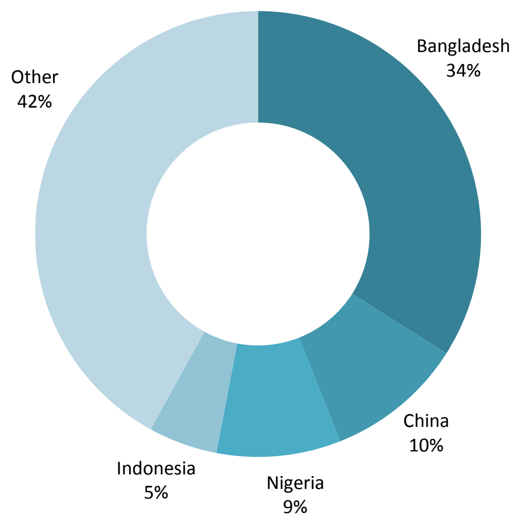
18.132 Although privately provided, education remains a public good. Any efforts to encourage investment by education purveyors must be carefully counter-balanced with stringent quality requirements so that the pursuit of economic impact does not come at the expense of education outcomes. Hence, moratorium on the establishment of new PHEIs was imposed with the following objectives:

- Upgrading the level of quality and standard for new and existing PHEIs
- Ensuring supply of education services does not exceed demand
- Encouraging consolidation of PHEIs for their sustainability and capacity building

18.133 In 2013, the government established the Education Malaysia Global Service (EMGS) as a one-stop centre for international marketing and promotion. It provides a single interface for the application, processing and issuance of foreign students pass. Express clearance is given to foreign students intending to pursue studies in PHEIs which have achieved Tier 5 and above in the Rating System for Malaysian Higher Education Institutions (SETARA)[8].

18.134 The number of students pursuing studies abroad continues to increase due to rising middle class population particularly in Asia. Malaysia captured 2.1% of the global market share in 2012. Majority of international students in Malaysia are from Asia, as shown in *Exhibit 18-24*. Enrolment of students from Bangladesh was the highest comprising 34% or 19,371 in 2014. This was followed by China at 10%, Nigeria at 9% and Indonesia at 5%. Enrolment of international students in private higher education from 2010-2013 is shown in *Exhibit 18-25*.

Exhibit 18-24
International Students Country of Origin, 2014



Source: Education Malaysia Global Service

[8] SETARA is used to measure the performance of undergraduate teaching and learning in universities and university colleges. The SETARA uses a six-tier category ranging from Tier 1(weak) to Tier 6 (outstanding).

Exhibit 18-25
International Students Enrolment 2010-2013

Year	Public Higher Education	Private Higher Education
2010	24,214	62,705
2011	25,855	45,246
2012	26,232	57,306
2013	29,662	53,971

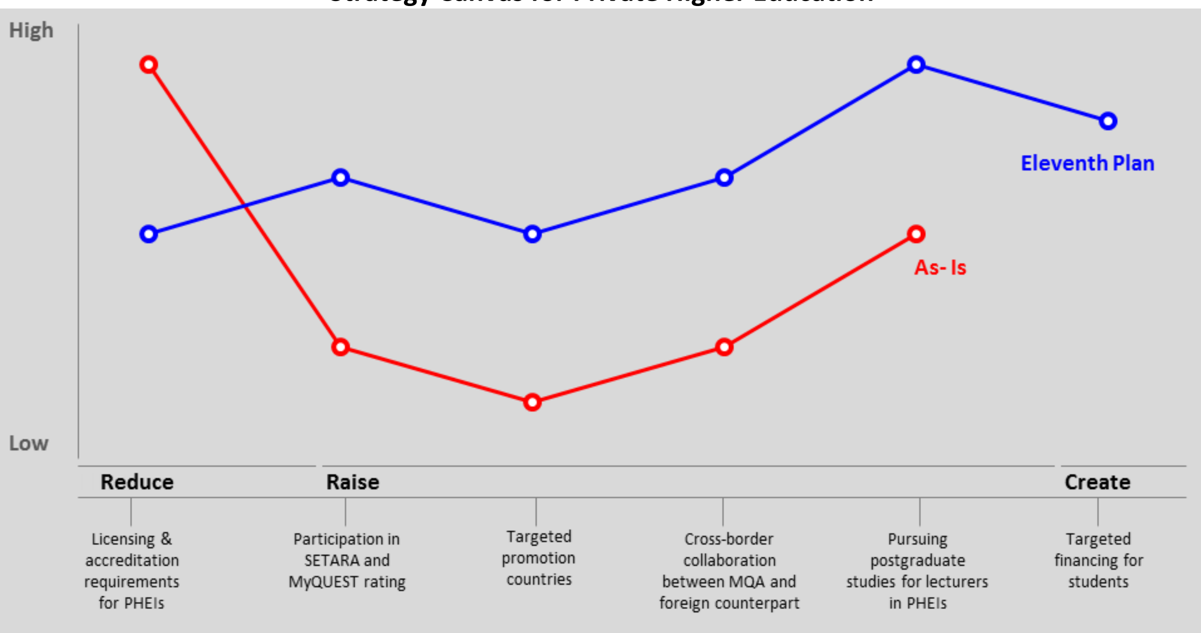
Source: Ministry of Education

18.135 Malaysia is gaining popularity as a destination of choice for higher education, particularly among Asian students. However, the subsector needs to further enhance the quality of academic programmes, ancillary services and facilities, governance and financing. The setting up of PHEIs, opening new branch campuses and accreditation of courses are complex and time consuming. In addition, the low repayment rate of Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) loan at 60% has led to fund sustainability issue, which could impact the growth of PHEIs. Apart from the repayment issue, PTPTN is not optimally used as a quality control mechanism as all students enrolled in accredited PHEIs even without SETARA and MyQUEST ratings are eligible for the loan.

WAY FORWARD

18.136 Malaysia aspires to attract 200,000 international students by 2020 and aims to be a centre of excellence for accountancy and Islamic finance.

Exhibit 18-26
Strategy Canvas for Private Higher Education



18.137 Efforts will be intensified to develop reputable and high quality PHEIs through better facilitation and regulations. The strategies for the private education sector in the Plan period are enhancing quality services, enhancing good regulatory practices, improving PTPTN and intensifying internationalisation.

Enhancing Quality Services

18.138 The participation of universities in SETARA rating programme and colleges in MyQUEST will be intensified and eventually made mandatory. SETARA and MyQUEST will rate the institutions and provide the point of reference for potential students to gain access to quality education. In addition, PTPTN loans will only be made available for students enrolling in PHEIs which meets the ranking and requirement of SETARA and My-Quest. These initiatives will induce private universities and colleges to continuously work towards enhancing quality, and emulate best practices.

18.139 The quality of teaching and learning in PHEIs will be promoted by providing more opportunities for training of academic staff. Opportunities for them to pursue postgraduate studies will be broadened by providing access to scholarships and loans. PHEIs will also be encouraged to enhance research, development, commercialisation and innovation capabilities to attract postgraduate students. Collaboration between PHEIs with well-established local and foreign universities will be intensified to offer highly demanded programmes. This will attract local and foreign students to enrol and enhance the image of the private institutions.

Enhancing Good Regulatory Practices

18.140 Emphasis will be given to simplify and expedite licensing and accreditation processes to ensure timely approval and reduce cost of doing business. PHEIs with proven track record will be given greater autonomy in setting their curriculum and expanding their business. To ensure accountability, the setting up of a quality assurance unit within each institution will be made mandatory.

Improving PTPTN

18.141 The PTPTN scheme will be reviewed and a suitable mechanism will be formulated to ensure only eligible students are awarded to reduce the defaulter rate. PTPTN loans will be made available only to students from PHEIs, which have achieved four to six star rating under MyQUEST and Tier 5 and above for SETARA. Funding priorities will be closely related to field of studies with high level of graduate marketability to ensure guaranteed repayment of PTPTN. This would ensure the sustainability of PTPTN fund and increase access to education.

Intensifying Internationalisation

18.142 Promotion of Malaysia as the preferred destination for tertiary education will be targeted to Asian market mainly China and Central Asia. China and India constitute approximately 23% of the global international students, while approximately 10% of students are from Central Asia. With the preference to study in countries near to their home country and similar cultural background, Asian market will ensure a sustainable growth for the industry. In line with the aspiration to become the centre of excellence for Islamic finance and accountancy, promotion for these programmes will be intensified.

18.143 To intensify internationalisation, cross-border collaboration between the Malaysian Qualifications Agency (MQA) and foreign accreditation agencies will be undertaken. This is to infuse new ideas, introduce models of effective practices and monitor the performance of Malaysian PHEIs branch campuses abroad.

Transforming Services Sector:

Private Healthcare

PROGRESS

WAY FORWARD

Improving Regulatory Framework and Governance

Building Capacity and Capability for Internationalisation

Establishing T&CM Centre of Excellence

Enhancing Productivity

Giving Back to Society

Strategy Paper

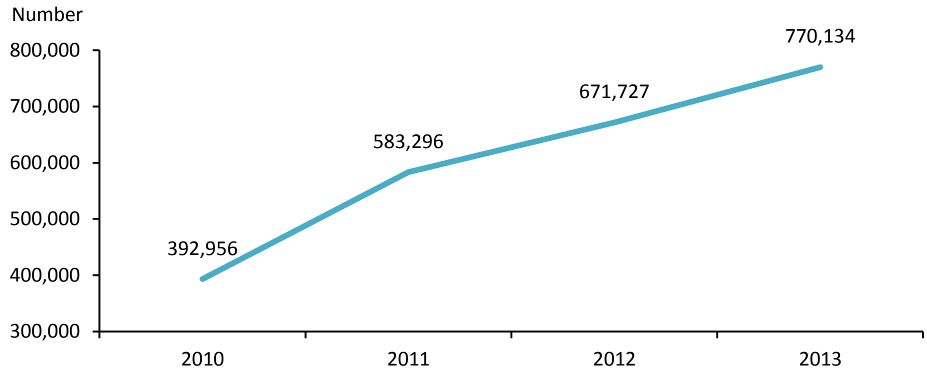
18G

PROGRESS

18.144 Growth of private healthcare services[9] was positive during the Tenth Plan period with 5.5% average annual growth rate and contributed RM24.1 billion in value added. The number of beds in private hospitals increased by 6% to 14,033 in 2013 compared with 13,186 in 2010. Changing demographics, a more affluent society and health-conscious lifestyles have led to the development of a robust domestic healthcare industry. While the local healthcare industry had been dominated by the public healthcare sector, over the past decade the private healthcare services had undergone tremendous growth.

18.145 Healthcare travel registered a strong growth of 15% in foreign patient arrivals with 770,000 foreign patients seeking medical treatment in 2013 as compared to 670,000 in 2012. The number of healthcare travellers from 2010 to 2013 is shown in *Exhibit 18-27*. Meanwhile, the revenue from the industry grew by 16% to RM690 million compared with RM594 million in the same period. The revenue generated from 2010 to 2013 is shown in *Exhibit 18-28*. The growth in revenue consistently surpassed the Tenth Malaysia Plan target of 10% per annum.

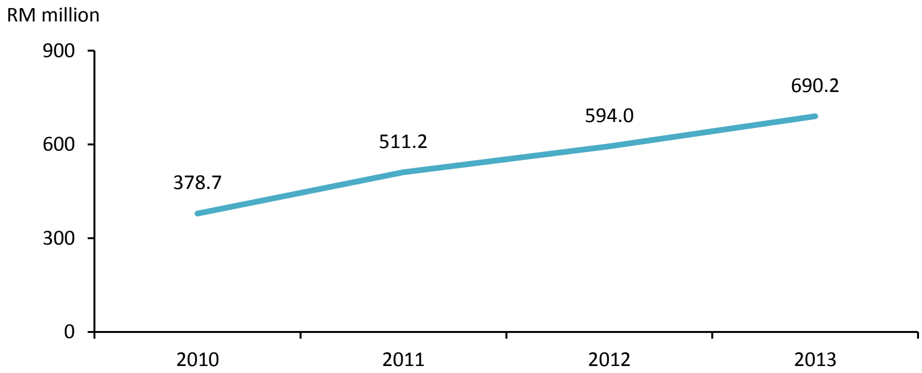
Exhibit 18-27
Number of Healthcare Travellers, 2010-2013



Source: Malaysia Healthcare Travel Council

[9] Healthcare services industry covers a broad scope of activities, which includes traditional and complementary medicine (T&CM), medical travel and clinical research.

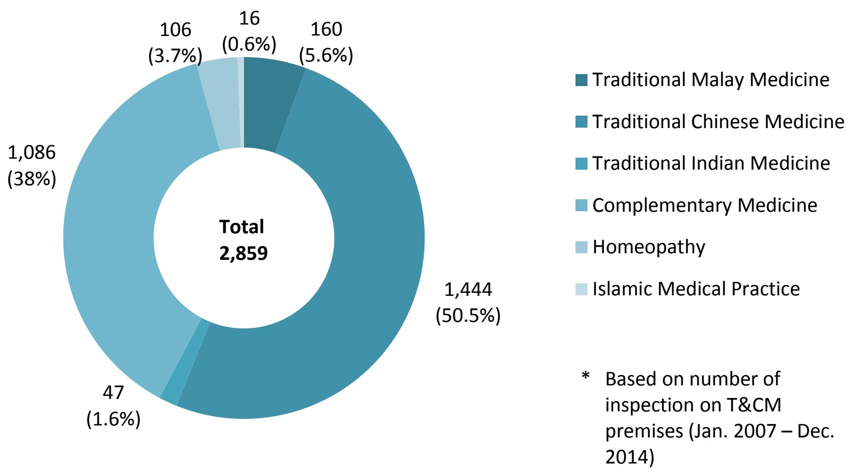
Exhibit 18-28
Revenue from Healthcare Travellers, 2010-2013 (RM million)



Source: Malaysia Healthcare Travel Council

18.146 The role of traditional and complementary medicine (T&CM) has long been recognised in health maintenance, disease prevention and treatment. However, unlike modern medicine, T&CM is still at its infancy stage and has the potential to be further promoted. The enforcement of the Traditional and Complementary Medicine Act, 2013 to regulate the industry serves as a major milestone for the industry. As at 2014, a total of 15 T&CM units were set up in public healthcare facilities compared with only eight in 2010, to complement modern medicine. The profile of T&CM according to the types of practice is shown *in Exhibit 18-29*.

Exhibit 18-29
Distribution of T&CM Practices



Source: Ministry of Health

18.147 The Clinical Research Malaysia (CRM), a not for-profit government owned company was established in July 2012 with the aim of promoting Malaysia as the preferred destination for industry sponsored research (ISR). CRM is also responsible for implementing initiatives to enhance the capability of public and private healthcare facilities to conduct ISR. The number of ISR grew by 120% in 2014 as compared to 2010.

18.148 Despite encouraging performance of the private healthcare industry, there are issues concerning the governance of the industry. The lack of capacity in governing agencies has led to less attention given in developing the private healthcare industry. In respect to T&CM, the current regulatory framework does not allow the establishment of T&CM hospitals and the expansion of existing modern medicine private hospital to provide T&CM services. In addition, health insurance in Malaysia does not cover T&CM compared with countries such as Japan, China and Vietnam which provides coverage for T&CM since the 1990s. With regard to healthcare travel, the industry faces challenges such as high dependency on a few target markets, low revenue per patient, lack of private hospital capacity and insurance portability.

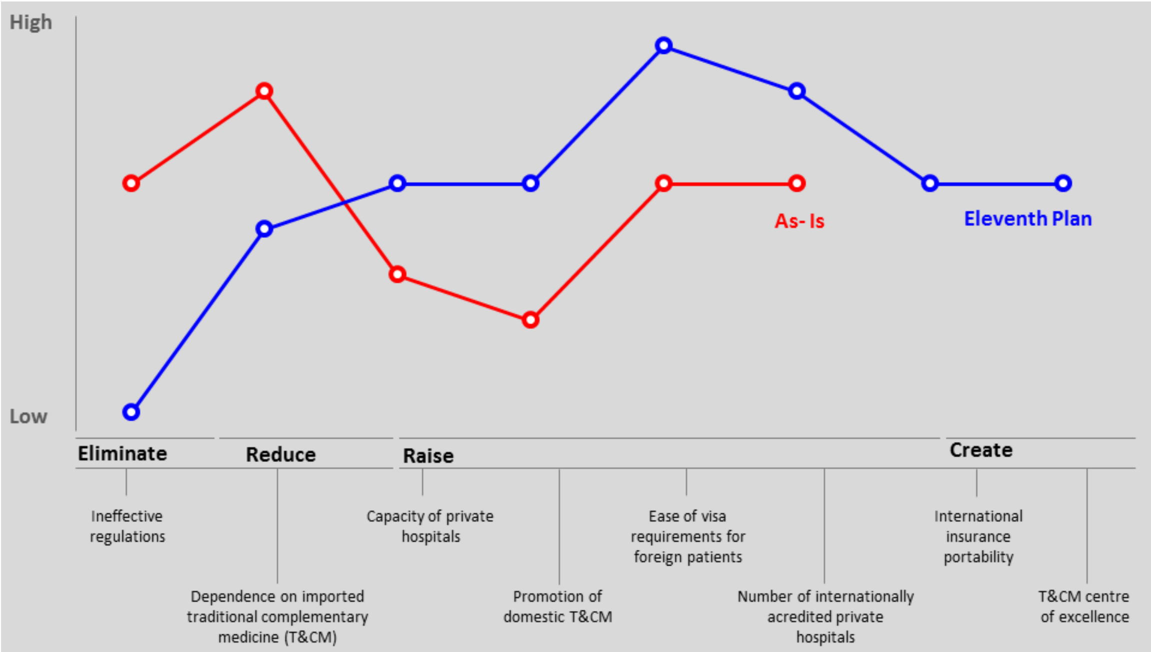
WAY FORWARD

18.149 Private healthcare services complements public healthcare and provides an alternative to quality healthcare services. In the Eleventh Plan, focus will be given to transform the sector by improving regulatory framework and increasing global competitiveness. Clinical research, particularly in exploring new treatment modalities will be increased to support industries such as pharmaceutical and medical devices manufacturing. The success of these strategies will also depend on the availability of qualified workforce such as medical specialists, nurses in specific areas, allied health professionals such as radiographers, pharmacologists and pharmacokineticists.

18.150 The Plan sets a target of 10% annual growth rate in revenue for private healthcare. Meanwhile, the healthcare travel subsector is expected to record annual growth rate of 15% and generate about RM2 billion in revenue by 2020.

18.151 The strategy canvas, as shown in *Exhibit 18-30* presents the initiatives for the industry.

Exhibit 18-30
Strategy Canvas for Private Healthcare



18.152 In the Plan period, strategies to further develop the private healthcare industry are as follows:

- Improving regulatory framework and governance
- Building capacity and capability for internationalisation
- Establishing T&CM centre of excellence
- Enhancing productivity
- Giving back to society

Improving Regulatory Framework and Governance

18.153 A good regulatory framework to protect patients' rights to safe and reliable healthcare services, while facilitating industry development will be created by reviewing existing regulations, implementing regulatory impact assessment (RIA) in developing new regulations as well as streamlining immigration process.

Reviewing Existing Regulations

18.154 The existing regulations will be reviewed in line with the National Policy on the Development and Implementation of Regulations (NPDIR) which will include:

- Advertising for hospital services and doctors
- Pricing for medical fees
- T&CM

    - Establishment of T&CM hospitals
    - Expansion of existing modern medicine private hospitals to provide T&CM services
    - Monitoring of operations and standards of T&CM premises
- Guidelines on setting up private facilities for clinical research

Implementing Regulatory Impact Assessment (RIA)

18.155 The creation of new regulations will be subjected to the RIA process, led by the Malaysia Productivity Corporation (MPC). The process will improve the quality of new regulations by assessing the costs, benefits and other impacts of proposed regulations on businesses.

Streamlining Immigration Process

18.156 The Ministry of Health (MOH), Department of Immigration and Malaysia Healthcare Travel Council (MHTC) will collaborate and streamline immigration processes and procedures to facilitate the entry and exit of foreign patients.

Strengthening Governance

18.157 The Policy and International Relations Division, MOH, which is responsible for private healthcare development will be strengthened to undertake holistic planning and development of the industry. In addition, a private health industry masterplan will be formulated to take the sector to the next level.

Building Capacity and Capability for Internationalisation

18.158 A healthcare brand which is synonymous with trust, safety, excellence and affordable will be created. This will be undertaken by enhancing private hospital capacity, increasing the number of internationally accredited private hospital, expanding insurance coverage and portability, focusing on higher revenue segment, growing regional referral network, and increasing the exports of T&CM products and services.

Enhancing Private Hospital Capacity

18.159 Private hospitals will be encouraged to increase the number of beds to admit more patients. The relevant authorities will facilitate this effort by improving the ease of doing business, which include the areas of licensing and permit.

Increasing the Number of Internationally Accredited Private Hospitals

18.160 Currently 51 private hospitals in Malaysia have received international accreditation from the Joint Commission International (JCI), International Society for Quality on Healthcare (ISQua) and Australian Council on Healthcare Standards (ACHS). During the Plan period, more private hospitals will be encouraged to obtain international accreditation to give an added advantage to attract more foreign patients. The Department of Standards, Malaysia and Malaysian Society for Quality in Health (MSQH) will develop national standards for healthcare providers to enhance quality and safe care to patients.

Expanding Insurance Coverage and Portability

18.161 In line with international practices, insurance coverage will be expanded to include T&CM. In this regard, MOH will work closely with the Life Insurance Association of Malaysia (LIAM) and private insurance companies to drive the initiative. MHTC will lead the initiative on insurance portability by persuading international insurance providers and medical intermediaries[10] to include Malaysia in their coverage for overseas medical treatment. This will encourage more foreign patients to seek medical treatment in Malaysia.

Focusing on High Revenue Segment

18.162 It is imperative that Malaysia moves to a higher in-patient mix and increased revenue per patient by expanding export markets beyond existing markets. Private hospitals in Malaysia are encouraged to focus on a few specialised areas of treatment such as oncology, cardiology, orthopaedic, dental care and assisted reproductive techniques (ART). Healthcare facilities will also be encouraged to create international presence in the niche areas mentioned.

Growing the Regional Referral Network

18.163 MHTC will work with healthcare facilities in Malaysia to attract international medical intermediaries and partner with local healthcare facilities. The proposed partnership will make it easier for foreign patients to seek medical treatments in Malaysia.

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[10] International medical intermediaries, also called managed care organisations, functions as coordinator for patients who are not familiar with specific medical facilities abroad. These organisations work like specialised travel agents. They investigate healthcare providers to ensure quality, and screen clients to assess those who are physically well enough to travel. They often have doctors and nurses on staff to assess the medical efficacy of procedures and help patients select physicians and hospitals.

18.164 Investments made by Malaysian companies in regional hospitals and clinics such as IHH Healthcare Berhad and Ramsay Sime Darby Healthcare will be leveraged as a referral network to bring in foreign patients to Malaysia. This will facilitate healthcare professionals and facilities to offer their services on a need basis to their affiliates abroad. In addition, MOH will collaborate with institutions of higher education and MHTC to expand the regional referral network. This would be implemented via training of doctors from across the region, hosting of international and regional medical conferences and healthcare exhibitions.

Increasing Exports of T&CM Products

18.165 The National Council on the Development of Herbs will spearhead the development and facilitate export of T&CM products such as *tongkat ali*, *gamat* and agarwood by:

- Enhancing the development of T&CM industry with greater emphasis on export strategies
- Reviewing regulations which prohibit the export of certain T&CM herbs and products

Establishing T&CM Centre of Excellence

18.166 The growing global interest and demand for natural healthcare necessitate a comprehensive and enhanced development of T&CM in the country. This initiative will be supported by the establishment of a centre of excellence (CoE) for T&CM in selected teaching hospitals. The CoEs will be a catalyst for the overall development of T&CM in Malaysia and will become the regional referral centre for T&CM services.

Enhancing Productivity

18.167 Private healthcare facilities will be encouraged to adopt lean healthcare[11]initiative. This initiative will increase efficiency, streamline processes and improve patient outcomes, resulting in shorter waiting time, lower operational cost and improved overall patient's experience.

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[11] The core to the lean philosophy is to continually improve a process by removing non-value added steps. The lean healthcare initiative in Malaysia was implemented in 2013 with a few pilot hospitals namely: Hospital Sultan Ismail and Hospital Sultanah Aminah in Johor Bahru; Hospital Tengku Ampuan Afzan in Kuantan; Hospital Raja Perempuan Zainab 2 in Kota Bharu; Hospital Sultanah Nur Zahirah in Kuala Terengganu.

Giving Back to Society

18.168 The review for pricing of medical fees will include an introduction of a tiered pricing system for foreign patients. This will enable a certain percentage of fees to be channelled to a fund created in each private hospital. The fund will be used by the hospitals to sponsor poor domestic patients in need of immediate treatment. Private hospitals in Malaysia can also sponsor treatment for high profile international cases. This will project a positive image for Malaysian private hospitals nationally and internationally. This effort will be spearheaded by MOH, the Association of Private Hospitals Malaysia (APHM) and other stakeholders.

Transforming Services Sector:

Construction Industry

PROGRESS

WAY FORWARD

Enhancing Knowledge Content

Driving Productivity

Fostering Sustainable Practices

Enhancing Capability and Scale for Internationalisation

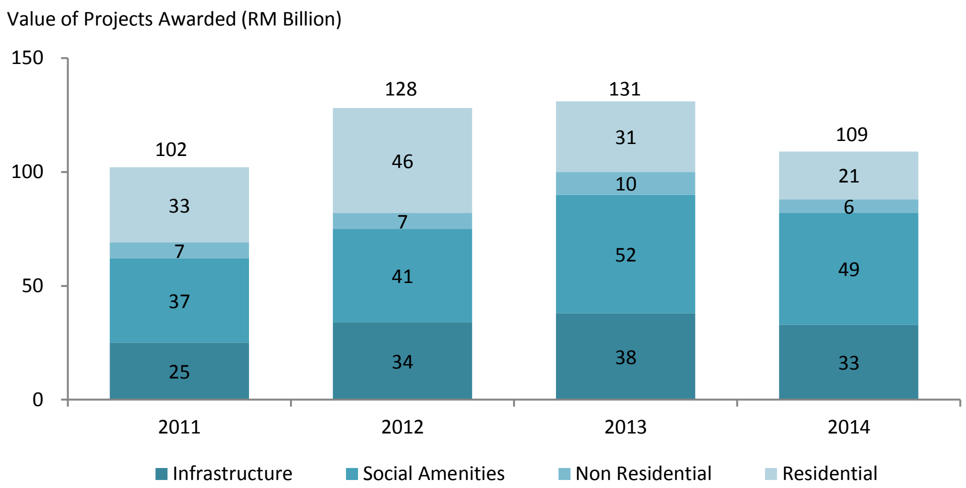
Strategy Paper

18H

PROGRESS

18.169 The construction industry recorded a double digit average annual growth rate of 11.1% during the Tenth Plan, faster than the overall economy which grew by 6.3%. In 2015, the construction sector is estimated to contribute 4.5% to the GDP supported by strong growth in civil engineering and non-residential subsectors. The sector provided 1.2 million jobs which constituted 8.9% of the total workforce in the Plan period. From 2011 to 2014, 29,435 construction projects were awarded, valued at RM470 billion. Private sector projects contributed RM387 billion, or 82% from the total value of the projects, while the remaining RM83 billion was contributed by public sector. The number of construction projects and value are shown in *Exhibit 18-31* and *Exhibit 18-32*.

Exhibit 18-31
Projects by Category and Value, 2011-2014



Source: Construction Industry Development Board Malaysia

Exhibit 18-32
Number of Projects by Category, 2011-2014

Sector	2011	2012	2013	2014
Residential	2,253	2,276	2,302	1,716
Non-residential	2,661	2,847	2,995	2,085
Social Amenities	820	906	723	523
Infrastructure	1,991	1,863	2,008	1,466
Total	**7,725**	**7,892**	**8,028**	**5,790**

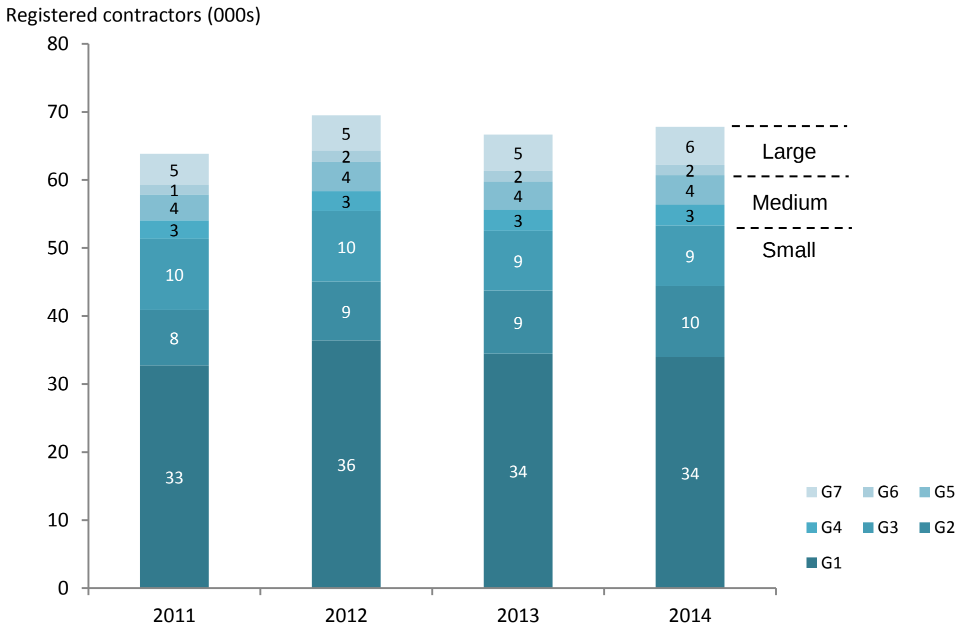
Source: Construction Industry Development Board Malaysia

18.170 Among the large-scale projects implemented were the Klang Valley Mass Rapid Transit (KVMRT) Line 1 from Sungai Buloh to Kajang, Electrified Double-Track Railway from Ipoh to Padang Besar, Light Rail Transit (LRT) extension from Kelana Jaya and Sri Petaling to Putra Heights, Kuala Lumpur International Airport 2 (KLIA2), Central Spine Road from Kuala Lipis to Bentong, and Re-gasification Terminal in Melaka. The implementation of these projects reflects the increasing use of technology and modern practices in the construction sector right from the design phase to execution and maintenance.

18.171 The players in the industry are largely SMEs, accounting for about 90% of total contractors. The Construction Industry Development Board (CIDB) grades registered contractors into seven categories according to paid up capital and tendering capacity. The composition of the construction firms registered with CIDB and the category of registered contractors are shown in *Exhibit 18-33* and *Exhibit 18-34*.

Exhibit 18-33

The Structure of the Construction Industry by Category, 2011-2014



Source: Construction Industry Development Board Malaysia

Exhibit 18-34
The Contractors Category

Grades	Paid-up Capital (RM)	Tendering Capacity (RM)
1	5,000	<200,000
2	25,000	<500,000
3	50,000	<1,000,000
4	150,000	<3,000,000
5	250,000	<5,000,000
6	500,000	<10,000,000
7	750,000	No limit

Source*:* Construction Industry Development Board Malaysia

18.172 Despite registering vibrant growth, productivity of the construction sector is low due to limited modernisation of construction methods and practices, low technology adoption as well as the reliance on low-skilled labour. Approximately 34% of the construction workforce is foreign, of which 93% are low-skilled. The issue on high dependency on low-skilled labour is further compounded by the presence of illegal foreign labour. In terms of exports, construction companies face challenges such as lack in financial strength and multi-disciplinary expertise, and in complying with the domestic regulations of the host countries. The construction sector continues to experience challenges in health, safety and environment (HSE) as evident in the poor safety record at construction sites. The poor performance in HSE was attributed to inadequate regulatory and enforcement efforts as well as low safety awareness in the industry. In addition, different practices between states in implementing the laws and administrative procedures as well as outdated regulations have led to increased bureaucracy and cost of doing business.

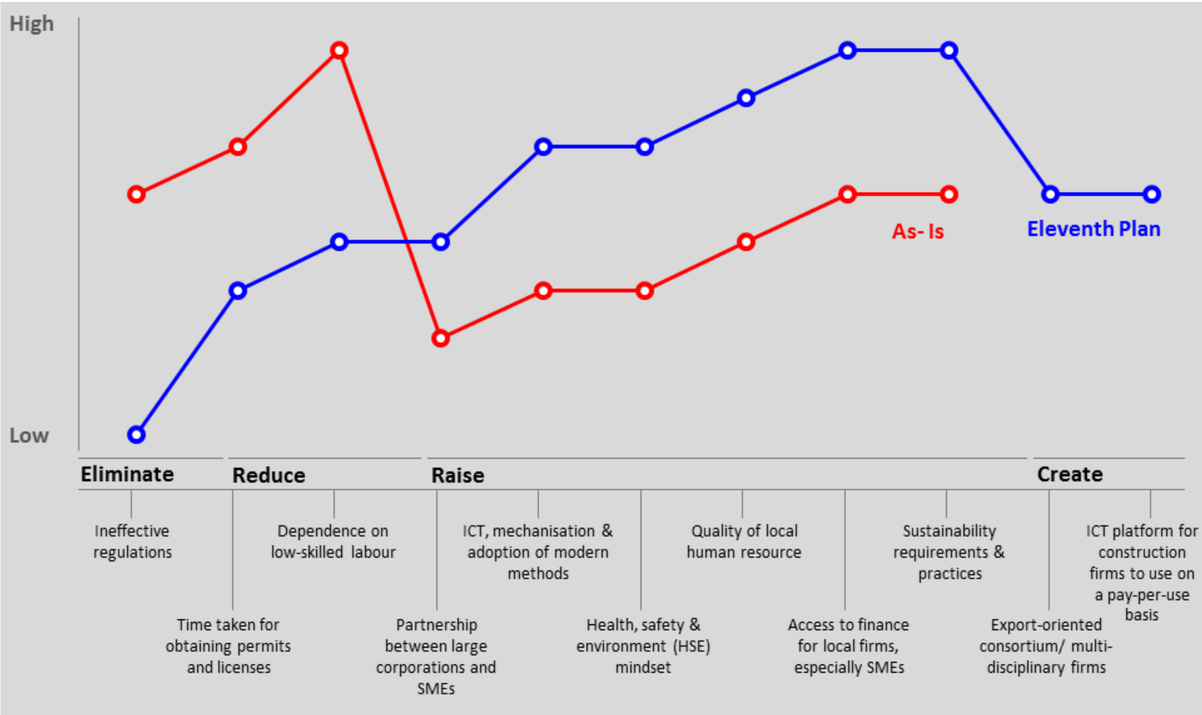
WAY FORWARD

18.173 The Eleventh Plan will focus on transforming the construction industry by enhancing knowledge content, driving productivity, fostering sustainable practices and increasing global competitiveness, in line with the Construction Industry Transformation Programme (CITP), 2016-2020. The targets set for the industry in the Eleventh Plan are as follows:

- Annual growth of 10.3%
- Increase productivity by approximately 1.6 times, from RM39,116 per worker in 2015 to RM61,939 per worker in 2020
- Annual increase of 10% in contractors certified with international health and safety standards
- Formalisation of large multidisciplinary consortia targeting international markets by December 2018

18.174 The strategies outlined for this industry are shown in the strategy canvas in *Exhibit 18-34*.

Exhibit 18-34
Strategy Canvas for Construction Sector



18.175 The efforts to transform the construction sector are based on four strategies namely, enhancing knowledge content, driving productivity, fostering sustainable practices and increasing internationalisation.

Enhancing Knowledge Content

18.176 The strategies on enhancing knowledge content in the construction industry focuses on addressing issues such as heavy reliance on unskilled labour and shortages in skilled trade personnel. Key initiatives are:

Increase Quality of Human Capital

18.177 Greater collaboration will be fostered between the industry and IHLs to ensure talent produced by the education system meet industry requirement. CIDB and the respective professional boards will collaborate with the industry and the IHLs in developing course module. A structured skilled trade apprenticeship programme for specific courses such as safety supervisor, crane operators and rotary drill operators will be introduced to produce a highly skilled workforce.

Accelerate Capacity and Capability-Building of SMEs

18.178 CIDB will engage key partners such as SME Corp, MRT Corp and other government-linked companies in enhancing SME capability to ultimately drive SME excellence. This could be achieved through the implementation of programmes such as specialist trade, mentor-mentee, and the establishment of productivity CoEs to share best practices. CIDB will also collaborate with global partners to provide on-site support via workshops and seminars for demonstration of hands-on toolkits for SMEs. These initiatives will also benefit the Bumiputera contractors as they constitute about 60% of the total contractors.

Enhance Control and Balance of Workforce Supply

18.179 Regular manpower planning will be undertaken to reduce mismatch between labour demand and supply. On the demand side, given the push for BIM adoption, there will be higher demand for BIM-trained personnel. Hence, training institutions, colleges and universities will develop appropriate courses and build a pipeline of BIM-trained workforce at the degree, diploma and certificate levels. The proportion of skilled foreign labour will be increased by streamlining entry requirements and introducing a new levy system.

Enhancing Professionalism

18.180 CIDB will develop national standard specifications for construction projects to enhance professionalism in the industry. The national standard will incorporate certification of skills trade, and best practices in determining standard clauses and terms in contracts between client and contractors. The implementation of Quality Assessment System in Construction (QLASSIC)[12] and material standards in construction will improve the quality of workmanship and raw materials used, thus enhancing the professionalism of contractors.

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[12] Quality Assessment System in Construction (QLASSIC) is a system or method to measure and evaluate the workmanship quality of a building construction work based on the Construction Industry Standards.

Driving Productivity

18.181 The strategies to increase productivity in the construction sector will focus on increasing technology adoption, modernising construction methods and improving ease of doing business.

Increasing Technology Adoption

18.182 The use of ICT across construction value chain will be increased by providing a common platform for the industry to use BIM on a pay-per-use basis. CIDB will establish a centre of excellence to become a one stop centre for technology adoption. This will facilitate the uptake of BIM while lowering the barriers of technology adoption among the industry players. The adoption of technology will eventually reduce dependency on low-skilled labour.

Accelerate the Adoption of Advanced Construction Methods

18.183 A review on IBS requirements for public and private sector projects will be undertaken to expedite its adoption. A supportive and rewarding environment for the industry to invest in advanced construction methods will also be created, particularly through the review of public procurement policy and Uniform Building by-Laws (UBBL).

18.184 The use of IBS in the construction sector will be further enhanced through government procurement to increase efficiency while reducing dependency on unskilled labour. Greater collaboration amongst key stakeholders such as the Ministry of Finance (MOF), Ministry of Works, CIDB, Public Works Department (JKR) and Ministry of International Trade and Industry (MITI) will be forged to increase the uptake of IBS. In particular, regulatory bottlenecks such as incompatibility between UBBL clauses and IBS component specifications will be addressed.

Improving Ease of Doing Business

18.185 Existing regulations concerning the sector will be improved to enhance ease of doing business in line with the NPDIR. For instance, the efforts to improve business processes in obtaining construction permit started by Kuala Lumpur City Hall (DBKL) will be expanded to other local authorities. This initiative will involve a comprehensive review of construction permit approval processes across ministries and agencies as well as enhancing the existing one stop centre for construction permit submission. Through the development of an integrated IT system, the one stop centre will enable online submission and approval for construction permits, thus significantly reduce the processing time.

Fostering Sustainable Practices

18.186 Strategies will be geared towards increasing the sustainability of built infrastructure. This will include inculcating sustainable practices in the construction value chain and spearheading the development of legal instruments to ensure the sustainability of the construction sector.

Reduce Irresponsible Waste Generation

18.187 Contractors will be mandated to comply with waste management programmes as part of the requirement in Environmental Management Systems certification ISO 14001 by January 2018. The mandate will be applied in phases starting with large contractors in the G7 category, particularly those with procured public projects above a defined value. This mandate will take effect via annual renewal of contractor licenses with CIDB.

Health, Safety and Environment (HSE) Good Practices

18.188 Adoption of HSE good practices will be enhanced by raising awareness, and driving accountability in the industry. The Ministry of Human Resource (MOHR) and CIDB will encourage all stakeholders to observe HSE good practices. This will increase safety and security features, reduce accidents and increase attractiveness of the industry to new entrants.

18.189 Regulations on HSE will be reviewed to improve occupational safety and health of construction workers. Standards for workers' amenities will be outlined in a code of practice for HSE, which will be made a compulsory component in contracts. Malaysian standards (MS) will also be developed by the Department of Standards and CIDB by the end of 2015 based on the workers amenities code of practice. This will have a positive impact on workforce productivity and improve the perception of the construction industry.

Enhancing Capability and Scale for Internationalisation

18.190 High performing SMEs will be encouraged to build capability and increase scale either through partnership with larger corporations or form multi-disciplinary consortia when bidding for international projects. Support for networking facilitation, consultative expertise and financial incentives will also be enhanced. These strategies will address issues concerning small number of firms that are exporting by building a larger pool of export-ready firms.

18.191 Construction firms will be encouraged to optimise FTAs and MRAs when venturing abroad and provide feedback to the Government on the challenges they faced so that issues can be addressed at the government-to-government level. In addition, SMEs will be encouraged to form a multi-disciplinary consortium when bidding for selected Government projects. The public procurement policy will be reviewed to facilitate the formation of such consortia. It is envisioned a successful partnership between multi-disciplinary firms in the home market will establish networking and build trust among these firms. This will facilitate firms to compete for large scale projects either domestically or internationally.

CONCLUSION

The services sector has undergone many changes over the past several Malaysia Plans. The strategies undertaken include liberalisation, human capital development and regulatory reforms. But, an even more pervasive transformation is expected. In the Eleventh Plan, the services sector will be transformed to become more knowledge-intensive and growth will be driven by productivity. The Plan will unleash a host of changes across the sector through internationalisation of service providers, effective investment incentives, human capital development and integrated sectoral governance reforms. Specific sectoral strategies will unlock greater growth potential in the sector. Henceforth, the services sector will attract higher private investment, enhance services exports and create more high income jobs in line with the national aspiration to become an advanced and inclusive nation.

APPENDIX

Subsector	AANZFTA	ACFTA	M-Pakistan	M-Japan	ASEAN-Korea	M-NZ	MAFTA
Legal	100% equity	Only through a corporation incorporated in Labuan. (Off-shore services)	Only through a corporation incorporated in Labuan. (Off-shore services)	Only through a corporation incorporated in Labuan. (Off-shore services)	Only through a corporation incorporated in Labuan. (Off-shore services)	Only through a corporation incorporated in Labuan. (Off-shore services)	Unbound
Accounting	40% equity	49% equity	40% equity	35% equity	40% equity	35% equity	None
Engineering	30% equity for multidisciplinary practices (Engineering, Architecture and/or Quantity surveying)	10% equity for multidisciplinary practices (Engineering, Architecture and/or Quantity surveying)	40% equity for multidisciplinary practices (Engineering, Architecture and/or Quantity surveying)	10% equity for multidisciplinary practices (Engineering, Architecture and/or Quantity surveying)	10% equity for multidisciplinary practices (Engineering, Architecture and/or Quantity surveying)	10% equity for multidisciplinary practices (Engineering, Architecture and/or Quantity surveying)	Unbound
Architectural	30% equity for multidisciplinary practices (Engineering, Architecture and/or Quantity surveying)	10% equity for multidisciplinary practices (Engineering, Architecture and/or Quantity surveying)	30% equity for multidisciplinary practices (Engineering, Architecture and/or Quantity surveying)	Architectural services may be supplied only by a natural person.	10% equity for multidisciplinary practices (Engineering, Architecture and/or Quantity surveying)	Architectural services may be supplied only by a natural person.	4 specialists per country registered in the country of origin to work in collaboration with local registered architects.
Surveying	-	-	-	-	-	-	-
Management Consulting	70% equity	70% equity	70% equity	70% equity	70% equity	Unbound	Unbound

Note: ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA)
ASEAN-CHINA FREE TRADE AGREEMENT (ACFTA).
Malaysia-Pakistan Free Trade Agreement (M-Pakistan)
Malaysia-Japan Free Trade Agreement (M-Japan)
Malaysia-New Zealand Free Trade Agreement (M-NZ)
Malaysia-Australia Free Trade Agreement (MAFTA

Source: Ministry of International Trade and Industry