

Speech By Hon. Datoâ€™™ Sri Mustapa Mohamed Minister Of International Trade And Industry, Malaysia, MICCI Services Summit Tuesday, 12 January 2010, 8.45 am, Shangri-La Hotel, Kuala Lumpur

Mr. Charles Ireland

President, Malaysian International Chamber of Commerce and Industry

Distinguished guests

Members of the media,

Ladies and Gentlemen

A very good morning and Salam 1Malaysia

1. Let me begin by wishing all of you a Happy New Year. I would also like to congratulate the Malaysian International Chamber of Commerce and Industry, for organising this Summit to bring together so many representatives from services-related activities, namely the Government, services-related organisations, trade consultants, SMEs entrepreneurs, suppliers of services and academicians.

2. The theme of todayâ€™™s Summit â€œHarnessing Services for Economic Growthâ€ is very appropriate. Your deliberations today will not only draw attention to the services sector as the growth engine for the economy, but I am sure they will also see ideas generated towards this end.

3. I am also pleased to announce that this Summit is held with MITI funding in order to add capacity and outreach to services providers. This Services Sector Capacity Development Fund was made available to industry in the first financial stimulus package introduced by the Government in November 2008.

4. The services sector has increasingly been a significant contributor to the economy. In 2008, this sector contributed 55 per cent to the GDP, and despite the global economic slowdown that started in 2008, it remains strong and resilient. Based on data available for the first three quarters of 2009, services is the only economic sector in Malaysia that registered growth and increased its contribution to the GDP.

Ladies and Gentlemen,

5. Malaysiaâ€™™s trade in services is on a very positive growth trajectory. The total trade in services in 2008 amounted to RM201.8 billion, an increase of 1.3 per cent from RM199.2 billion in 2007. It is encouraging to note that the services trade, which registered its first surplus in 2007 continued with this trend in 2008. Based on current statistics, we can expect to see a third year of continuous surplus in trade in services in 2009.

6. As indication, Malaysia's services trade amounted to RM92.0 billion in the first half of 2009. Exports amounted to RM47.9 billion, while imports were valued at RM44.1 billion, registering a RM3.8 billion surplus for the first half of 2009.

7. The services sector has also been attracting high levels of investments over the years. Investments since 2006 has exceeded the RM45.8 billion per annum targeted in the Third Industrial Masterplan for the period 2006 to 2020. Total approved investments in 2008 amounted to RM50.1 billion and for the first half of 2009 it was registered at RM23 billion. It is significant that most of the investments in this sector originate from domestic sources. In fact, domestic investment in the services sector has ranged from 85 to 90 per cent in the last five years. While we welcome this, we would also like to see more foreign investment in the services sector. Foreign participation could bring about the transfer of technologies and expertise, create new capacities, fill in vacuums in services not available in the country and help contribute to the creation of high value jobs.

Ladies and Gentlemen,

8. One of the ways to attract more FDI into the country is through economic liberalisation. To achieve this, the Government has made a number of bold steps since early last year. I am sure you are all well informed of the liberalisation of equity conditions for 27 sub-sectors of services, the liberalisation of selected services in the financial sector, and the deregulation of the Foreign Investment Committee (FIC) Guidelines.. These moves demonstrate the willingness of the Government to undertake necessary reforms to sustain Malaysia's attractiveness as an investment location. The Government is committed to further liberalisation of the services sector.

9. Apart from the unilateral liberalisation measures, Malaysia also participates in various liberalisation initiatives through ASEAN, the World Trade Organisation, WTO and regional and bilateral Free Trade Agreements.

10. Services suppliers in Malaysia, and this includes foreign companies in joint venture with Malaysians, should leverage on the market access opportunities arising from these initiatives. Our domestic market is small and in many cases saturated. This has increased competition among domestic service providers. The Malaysian business community should also look beyond our immediate borders to the ASEAN market. With a population of more than 580 million, ASEAN provides substantial opportunities for service providers based in Malaysia. As ASEAN deepens its economic integration, more is being done to liberalise the services sector within the region. ASEAN is now working on its 8th package of services liberalisation under the ASEAN Framework Agreement on Services. Malaysia, with its infrastructure and business-friendly Government has the requisite value proposition to be used as a base for the opportunities in the region.

Ladies and Gentlemen,

11. I understand that this Services Summit will focus on three priority services sub-sectors, namely, Health Tourism, ICT Content and Innovation and Total Integrated Supply Chain. Therefore, allow me to briefly touch on these three sub-sectors.

12. Malaysia ranks among the best in the world for its medical expertise and is becoming the preferred regional healthcare hub due to our highly competitive medical charges and hospitalisation costs. To encourage further development of this sector, especially healthcare travel, a number of measures was recently announced by YAB Prime Minister:

• Malaysia is currently offering Investment Tax Allowance of 100 per cent on qualifying capital expenditure incurred on the construction of new private hospitals and the expansion/refurbishment of existing private hospitals. This allowance can be offset against 100 per cent of statutory income for a period of 5 years. The incentive is applicable for applications received from 1 January 2010 to 31 December 2014;

• We are also undertaking a review of advertising regulations and guidelines to accommodate the changing role of private hospitals in promoting healthcare travel;

• There is double deduction incentive for expenses incurred by private hospitals to obtain domestic/internationally recognised accreditation;

• The government approve automatically employment of spouses of non-Malaysian medical specialists who qualify as professionals under the Malaysian Classification of Occupation; and

• Permits can be issued for the transportation of patients from the airport to the hospital, the conversion of "visit-on-arrival" status to a social visit pass for foreigners seeking medical treatment and expediting the approval to stay to medical tourists at the state level.

13. In addition, the Government has also extended the reinvestment incentive for refurbishment of hotels for another five years to support healthcare travel tourism sector.

Ladies and Gentlemen,

14. For ICT services, Malaysia is ranked as the third most favoured location for outsourcing of business processes. Malaysia is ideal for business processes outsourcing because of its location and more importantly the availability of a multilingual workforce.

15. Malaysia also has potential to grow domestically and internationally in digital animation, network security, software development, mobile communication system and in digital broadcasting. Globally, Malaysian based ICT companies have reached out to many parts of the world.

• Inspidea Sdn. Bhd. is, the 1st Malaysian company to successfully export animation Intellectual Property to Japan, Canada and France;

• IRIS Corporation Berhad specialises in Biometric based ePassports and has established business ventures in Bahamas, Egypt and Turkey;

• Microlink Worldwide Sdn.Bhd has ventured into the Middle East and North Africa to distribute its Microlink Banking Solutions (‘MiBS’); and

• Scicom (MSC) Berhad manages multiple contact centres in Asia and is handling interactions from 38 countries globally.

16. The Government has provided various incentives to promote the ICT sector. In addition to incentives offered to MSC Status Companies operating in cybercities, ICT companies are eligible under the Promotion of Investment Act 1986, for:

• Pioneer Status with 50 per cent tax exemption on statutory income for a period of 5 years; or

• ITA of 50 per cent on qualifying capital expenditure incurred within a period of 5 years to be offset against 50 per cent of statutory income for each year of assessment.

17. At the 21st International Advisory Panel (IAP) of the MSC held on 11 November 2009, YAB PM reiterated Malaysia’s need to move quickly towards a knowledge-based economy. The K-workers Development Initiatives (KDIs) developed by MDeC are focused to meet the industry demand for K-workers. Other initiatives are also being undertaken to increase the availability of a bigger talent pool for the industry and to enhance employability of the workforce to support the knowledge-based economy.

Ladies and Gentlemen,

18. Although we are giving more focus to the services sector, it does not mean that the manufacturing sector is no longer a priority. The development of the services sector would in fact complement and support the development of the manufacturing sector. This is particularly true of the reliance of the manufacturing sector on a competitive and efficient logistics supply chain to move its goods and products to the consumers in overseas market.

19. As manufacturers outsource production parts and components worldwide to lower the cost of production, the logistics sector assumes a critical role towards achieving this objective.

20. Trade is an important lifeline for Malaysia. The Government is committed to lowering the costs of logistics in order to maintain Malaysia’s competitiveness as a trading nation. Efforts are being made to further consolidate and integrate the logistics sector to not only provide better and competitive services to domestic manufacturers but to also provide logistics services to neighbouring countries. Malaysia is also establishing new capacities and facilities in ports and airports and is improving its infrastructure to position the country as a regional hub for logistics.

Ladies and Gentlemen,

21. I hope the presence of participants from various services sectors in this Summit would create a better understanding of global liberalizations trends and how it will impact on the Malaysian market through sharing of knowledge and experience. It is also my hope that representatives from various Ministries/ agencies and multinationals will also share views, opinions and experiences on policy and developmental initiatives required to further enhance the contribution of the services sector to the economy.

22. On this note, I would like to take this opportunity to thank MICCI for inviting me to share my thoughts with you on this subject. I wish you all the best in your deliberations today.

Thank you.