The 2008-09 Global Financial Crisis: Services to the Rescue in Malaysia

Sieh Lee Mei Ling

Abstract
Conventional approaches of increasing public expenditure on economic sectors and on social infrastructure construction for the purpose of boosting demand and stimulating multiplier effects continued to be important in the global financial crisis of 2008-09. In most Asian countries that were negatively impacted, largely because of their reliance on the US market where the problems started, the Keynesian path was followed along with other actions. The economic stimulus packages executed by Malaysia included numerous policy measures within the services sector. They reflected the changing economic structure and understanding of evolving needs. Various services subsectors have assumed significance not only as avenues for economic growth in prosperous years, but also as important avenues for buffering and correcting the debilitating effects of the recession. There is a need among developing economies, such as Malaysia, to identify gaps to develop and strengthen the capabilities of monetised services activities for playing a bigger role in times of future economic challenges.

Keywords: Economic Crisis, Policy Intervention, Services Recovery Measures

JEL Classification: E00, E24, E61

Sieh Lee Mei Ling is a Senior Research Fellow at the Faculty of Business and Accountancy, University of Malaya. She is the founder adviser of the Services Research and Innovation Centre (ServRI), a tripartite platform for integrating service businesses, policy makers and academics to move service producers to higher levels of competitiveness, productivity and value added. Recently, she was nominated and appointed by the Securities Commission to the Board of the first Self Regulatory Organisation in the finance sector of Malaysia, the Federation of Investment Managers Malaysia (FIMM), as a Public Interest Director. She is also an Honorary Professor, Universiti Tun Abdul Rahman, on the Advisory Panel of the Centre for Public Policy Studies of ASLI and also an Honorary Academic Advisor of the Methodist College, Kuala Lumpur.

After retiring as Chair Professor of Business, University of Malaya, where she taught, researched and published over a hundred refereed papers and academic publications, Sieh Lee Mei Ling served as an Independent Director of the Board of Southern Bank Berhad and chaired the Investment Committee of SBB Mutual Berhad. She was also on the Board of Directors of the Employees Provident Fund, and chaired its Audit Committee. Sieh was a Director of the National Accreditation Board, and of May May Co. Ltd, Hong Kong.
1. Introduction

The impact of the global financial crisis that originated from the sub-prime housing market in the USA in the third quarter of 2008 was felt by many Asian economies. Throughout much of 2009, the negative effects swept rapidly across the globe, moving from the financial sector to hurting the real economy and businesses. Exporting businesses, domestic oriented small and medium enterprises (SMEs), households and consumers in Asia were not spared when orders dropped and jobs were lost. The sharp decline in confidence, across the board, led to economic interventions that were drastic and speedy in most East and Southeast Asia, especially those where USA was a significant trading partner.

This paper attempts to gather thoughts on the effects of some of the services oriented remedial policy measures taken in Malaysia in response to the recent crisis. Malaysia is a key Association of South East Asian Nations (ASEAN) economy that ranks among the top 20 trading nations in the world. While its openness brought along calamities from reduction in export trade with advanced Organisation for Economic Co-operation and Development (OECD) economies on one hand, Malaysia’s integration into the global production networks including those of emerging China on the other, have helped policy makers in their decisions to alleviate recessionary effects. Interest on the part played by services industries and businesses is

For three years since March 2007, Sieh Lee Mei Ling chaired the Task Force on Services Statistics (comprising of, among others, the Department of Statistics, Economic Planning Unit, Central Bank of Malaysia, Ministry of International Trade and Industry, Ministry of Finance). She was an adviser on services sector development, investment and trade issues at the Malaysian Industrial Development Authority (MIDA) with the Malaysian Services Development Council and Malaysian Logistics Council of the Malaysian Government.

Her international collaborations and consultancy networks include top universities (e.g. National University of Singapore, Hong Kong University, AIM, Hosei University, University of California Berkeley, Columbia University, George Washington University, Hawaii University, Toronto University, British Columbia University, Quebec University, Victoria University, INSEAD), intergovernmental agencies (e.g. World Bank, Asian Development Bank, ASEAN Secretariat, Asian Productivity Organisation, Commonwealth Secretariat, World Trade Organisation, APEC, PAFTAD, UNCTAD, UNDP, ITC, GATT, ILO, OECD), industry organisations (e.g. Association of Finance Companies of Malaysia, PORIM, MOPGC, PORAM, MICCI, Coalition of Services Industries of Malaysia, MPHA, Master Builders Association of Malaysia, Malaysian Association of Professional Consultants, Malaysian Technology Development Corporation) and also businesses of different size and reach.

Sieh Lee Mei Ling has also won many awards, including the Young Leaders Award of Canada in 1991 and the Ohira Memorial Prize, Japan, for the best foreign academic publication in 1999.
examined because they are strategised as contributors for economic growth by the economic planners (MITI, 2006) under normal times and conditions. Services subsectors have been called into action more as buffering and stimulating agents during crisis conditions, and to support industries in all sectors of the economy.

The next section begins with a brief backdrop on the latest developments of the services sector within the Malaysian economy, followed by section 3 with a discussion of some definite impact of the recent crisis as it arrived on Malaysian shores. The fourth section highlights policy measures particularly those that focused on services industries and activities, as driving forces towards economic recovery. Some evidence of economic recovery along with services sector rebound is presented in section 5. This paper concludes with some implications and discussion of issues within the Malaysian services sector that need attention, in order that those services industries and businesses are strengthened to be more able and ready for greater responsibility in times of economic and social challenges ahead.

2. Services within the Malaysian Economy

Historically, the services sector has been the largest sector of the Malaysian economy, and the position remained till the present. The services sector is defined broadly as all economic activities including construction and government public services, other than mining and agriculture in the primary sector, and manufacturing industries in the secondary sector. In 2010, the services sector represented 60.6 per cent of the Malaysian Gross Domestic Product (GDP) at constant 2000 prices, valued at RM338 billion.\(^1\) If we exclude construction and government services, the sector accounted for 49.7 per cent of GDP valued at RM295.5 billion in 2010 (Economic Report 2010/11).

The services sector broadly defined was only 40.1 per cent of GDP in 1980 and businesses within services industries were left to thrive on their own with minimal policy prescription in the past. Post-independence industrialisation policies were geared mainly to manufacturing industries and modern agriculture and mining activities that brought in export revenues; and later on, to industries that contributed to import substitution. Only social services for the population and infrastructural services that supported businesses received some development attention. They included

\(^1\) USD1 = RM3.02 (as at 23 May 2011).
education, health, utilities, some transportation services and public administration (Sieh, 2011). The privatisation policy in the mid-1980s deregulated many of these services. Corporations took over the supply of many public services such as telecommunication, power generation and distribution, sewage and utilities, road toll, vehicle inspection, broadcasting, haulage and ports services, financial services including the biggest savings schemes and many others. Following, the 1990s saw changes in the national education and health policies. Private schools, colleges and universities mushroomed along with the rise in the number of private hospitals and health services.

Today, it is no longer an anomaly to refer to services as industries, as it would seem only two decades ago. The inclusion of services trade within the multilateral framework of the World Trade Organisation (WTO) in 1995 was an important step in pushing the need for services development and trade strategies, especially among developing nations, including Malaysia. The General Agreement on Trade in Services (GATS) was a source of uncertainty, apprehension and doubts for emerging economies, because services had always been taken as appendages to more important production activities in mining, agriculture and manufacturing rather than productive economic industries themselves (Sieh, 1991). The post-industrial state of developed economies demonstrated the path that middle income developing economies like Malaysia could follow to future development. It was also true that the underdeveloped services sector was beginning to choke fast developing economies with bottle necks, due to inadequate infrastructural services, best illustrated by the country’s infamous traffic congestions and comparatively expensive telecommunication services.

However, by early this century, Malaysia along with the ASEAN region moved towards services deregulation and liberalisation to external sources of supply under the ASEAN Framework Agreement on Services (AFAS) regional umbrella. From dependence on foreign suppliers - because of underdevelopment of domestic suppliers or insufficient domestic capacity - Malaysia started to export tertiary level education, port services, health services, construction services, banking and financial services, professional and business services, outsourced and shared services, besides conventional tourism services. While Malaysia was increasingly targeted as a service export market for foreign services producers, there was also more pressure on Malaysia to open up markets in each successive round of the GATS negotiations where conditions of the four modes of services trade are negotiated, namely, trade in service across border, by consumption abroad, by commercial presence and through movement of service personnel (Sieh, Abidin, & Loke, 2000).
Malaysian services industries have not been outstanding as exporters although some important breakthroughs began around the time of WTO formation in 1995 (WTO). The most crucial limitation is their relative uncompetitiveness vis-à-vis firms in the East and Southeast Asian region and beyond. Some are restricted by capacity constraints, technological backwardness and insufficient capital. Except for domestic orientated personal services, modern services operations require production systems and delivery modes that are relatively capital intensive. Many services industries are dependent on technologies that are constantly being elevated in ever shifting technology cycles, and this added to their difficulties. For example, most services are heavily dependent on the use of up to date information systems that are expensive to keep pace with in order to remain competitive.

With China’s entry into WTO, goods and services producers throughout ASEAN and Asia Pacific Economic Cooperation (APEC) economies increased their vigilance and effort to meet intensifying competition. Many are resorting to improve their efficiency in services in order for their merchandise goods to remain competitive. Within a dynamic situation where the number of competitors are rising, where both domestic and foreign markets are being pursued with options of new services products and modes of delivery, where prices are difficult to hold, where geographical boundaries are no longer limits and where the rules are constantly being tightened to the disadvantage of the unprepared and uninitiated, Malaysian services businesses have been awakened and the search for strategies and operational improvements are still continuing. They range from seeking out niche markets, to mergers and acquisitions with regional or global players that could accelerate their growth.

2.1 Current role of services

The average growth of Malaysia’s services sector in the last three decades was 8.3 per cent per annum (Sieh, 2011). It was only in 2006, that the Third Industrial Master Plan, 2006-2020 (IMP3) introduced a definite strategy for the sector’s planned development. For the first time, the so-called ‘non-productive’ intangible sector was given clear recognition as an industry that could and would contribute to economic growth, and that deliberate policies and strategies were needed to foster business development within various service subsectors. For the 15 year IMP3 period, the sector is expected to grow at an average of 7.5 per cent per annum, as the base expands. The IMP3 target for the sector is 59.7 per cent GDP share by 2020 (MITI, 2006). This target was attained and sustained in 2009 and 2010, a
decade before the time set, despite the crisis that hit this region because services activities grew quickly after the implementation of the IMP3 (MIDA, 2008).

According to the forecast by the IMP3, investment into services industries will grow RM45.8 billion per year on average between 2006 and 2020 (MITI, 2006). In reality, in 2005 services investment recorded RM57.7 billion, in 2006 RM55.5 billion and in 2007 RM66.4 billion, before the onset of the crisis (MIDA, 2008). The outcome surpassed IMP3 targets and raised confidence among services businesses. Similarly, external trade by conventional Balance of Payments statistics for invisibles had shown chronic deficits in the current account for decades. But since 2005, the situation turned into surplus of RM8.6 billion, RM6.5 billion in 2006, RM1.4 billion in 2007, and RM1.51 billion in first half of 2008 (Economic Report 2008/09). The surpluses were largely from travel accounts offsetting deficits in transport and other services.

By 2010, services activities inclusive of construction and government services reached the IMP3 target for GDP accounting for 60.6 per cent of GDP at constant 2000 prices. This was more than twice the share of the manufacturing sector, which accounted for 27.6 per cent of GDP. Employment in services, including construction and government services, increased to 60.4 per cent of total employed in 2010. For the same year, manufacturing provided only 27.8 per cent of total employment (Economic Report, 2010/11).

2.2 Current structure of the services sector

Within the services sector, distributive trade services and financial services have been the top two largest services subsectors, and they remained so in 2010 accounting for 13.4 per cent and 11.7 per cent of GDP respectively (see Table 1). Distributive trade comprising wholesale and retail services have undergone several cycles of change according to the innovative business models experimented over time. From being dominated by very small family owned stores that were spread throughout the country, large distribution outlets such as superstores and hypermarket chains today command a significant share of domestic trade for general consumer merchandise, even as specialist stores continued to remain small. As distributive trade accounted for large employment within the economy, the subsector was looked upon as an important provider of jobs when the crisis arrived. However, the issue of balance between the large foreign owned operators and the small local enterprises within the distribution subsector continued to remain as a potential area of socio-political concern.
With regards to financial services that were on a strong growth path after the Asian crisis of 1998-99, there were indicators that the financial subsector could have surpassed the distributive wholesale retail subsector to become the leader within Malaysia’s services sector if not for the recent crisis. Instead, valuations were unexpectedly suppressed for financial firms and financial services continued to trail distributive trades (Economic Report, 2010/2011). It was fortunate that the weaknesses within the finance subsector that showed up during the Asian crisis pushed reforms in the banking sector in many Asian economies, including in Malaysia. Notwithstanding the specific policy prescriptions of international agencies such as the International Monetary Fund (IMF) and the debate over their efficacy and suitability in arresting deteriorating finance related economic situations as compared to alternative measures such as those adopted by Malaysia then, financial services recovered strongly along with the economy. It was also fortunate that Malaysia was cautious in the implementation of Basel II and was not rushing towards excessively liberal lending policies. However, the expected changes from international agencies were expected to impinge on whatever measures that Malaysia would adopt following from the crisis, including Basel III (Ghosh, Sugawara, & Zalduendo, 2010).

Government services rank third important, rendering public administration and regulatory services to ensure orderly development of the entire socio-economic system (see Table 1). Major social services, particularly education and health have historically been under the ambit of government services. In the 1980s, a major exercise of privatisation took place in a deliberate attempt to reduce the size of the public sector. Private education and private hospitals began to sprout, among other traditional social infrastructure. However, over the last decade, government services have grown in tandem with broadening of government responsibilities particularly as global or regional demands increased, such as through numerous inter-governmental arrangements and Free Trade Agreements in many areas of businesses, trade, environment and humanity issues.

‘Other services’ comprising a range of professional and business services, make up the fourth largest services subsector. With widespread growth of production outsourcing and use of shared services across the globe, Malaysia gained recognition as well as a large share of the global outsourcing market. In an analysis of top forty (40) service locations worldwide using forty (40) measurements in three (3) categories, namely, cost, people skills and availability, and business environment, Malaysia was ranked as among the top third for 2004 and 2005. By 2013, Malaysia’s outsourcing market is expected to grow to USD1.9 billion (Malaysian
outsourcing industry, n. d.). However, with many new and efficient competitors, Malaysian service suppliers had to seek out niches to maintain their position. Tables 1 and 2 provide the data from 2006 to 2010 of the rest of the services sector that ranked lower in terms of their contribution to GDP. They are subsectors involved in real estate and business services, communication services, transport and storage services, construction, utilities, accommodation and restaurant services.

Table 1: Contribution of Services Sector to GDP

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tbody>
<tr>
<td>Construction</td>
<td>3.1</td>
<td>3.1</td>
<td>3.1</td>
<td>3.3</td>
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<tr>
<td>Utilities</td>
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<td>3.0</td>
<td>2.9</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Wholesale and Retail</td>
<td>11.5</td>
<td>12.4</td>
<td>13.0</td>
<td>13.3</td>
<td>13.4</td>
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<tr>
<td>Accom. and Restaurant</td>
<td>2.2</td>
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<tr>
<td>Transport and Storage</td>
<td>3.7</td>
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<tr>
<td>Communication</td>
<td>3.7</td>
<td>3.8</td>
<td>3.8</td>
<td>4.1</td>
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<tr>
<td>Finance and Insurance</td>
<td>10.2</td>
<td>10.6</td>
<td>11.0</td>
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<tr>
<td>Real Estate and Business</td>
<td>4.8</td>
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<tr>
<td>Other Services</td>
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<td>5.7</td>
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<tr>
<td>Government Services</td>
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<td>6.9</td>
<td>7.3</td>
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<tr>
<td>Total Services Sector</td>
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<td>56.9</td>
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Table 2: Output Growth of Services Sector

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<th>2006</th>
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<tr>
<td>Construction</td>
<td>-0.3</td>
<td>7.3</td>
<td>4.2</td>
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<td>Utilities</td>
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<tr>
<td>Wholesale and Retail</td>
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<td>14.2</td>
<td>9.8</td>
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<tr>
<td>Accom. And Restaurant</td>
<td>5.6</td>
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<td>Transport and storage</td>
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<td>Real Estate and Business</td>
<td>10.9</td>
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The increasingly heightened role expected of services is shown by the fact that seven (7) of the twelve (12) New Key Economic Areas (NKEA) announced in the New Economic Model (NEM)\(^2\) are in the services sector (NEM, 2010). Some of the timing of NEM strategies coincided with measures needed for economic crisis management as they were introduced towards the end of 2008 and rolled out throughout 2009, continuing into the year after. The way services were deployed and played out during the period is further discussed in Sections 4 and 5 below.

3. Business Consequences in a Crisis Economy

Nearly every economic indicator would bear testimony to the extent and gravity of the economic crisis of 2008-2009 and the bleak business condition has been documented elsewhere. Like other Asian countries, Malaysia was initially uncertain as to the depth and severity of the impact. When Najib Razak took office in Quarter 2 of 2008, concrete steps were quickly taken because unlike the Asian crisis of 1997-98, the global crisis of 2008-09 occurred within a different global economic structure, and firms’ production value chains were highly dispersed internationally. It was recognised that swift global response was needed. By Quarter 1 2009, the massive bailout packages launched by Governments across the globe were beginning to show positive effects, but that led to doubts over sustainability of the recovery.

Malaysia’s exports fell by 21.7 per cent for January to April 2009 compared with the same period a year before (MDOS, 2009a). The trend continued at negative 22.8 per cent for July 2009 but improved slightly at negative 20.4 per cent in September 2009, compared to corresponding months of 2008. The Index of Industrial Production dropped by 14.6 per cent, 10.9 per cent and 7 per cent in the first three (3) quarters of 2009 respectively (MDOS, 2009b). As exports decreased, unemployment rose and the Malaysian economy shrank for the first time since recovering from the Asian crisis. Besides reduction in machinery and material imports for manufacturing and other industries, food imports also decreased by 3.3 per cent in the first four (4) months of 2009.

GDP growth rate dropped from 7.4 per cent in Quarter 1 of 2008 to 0.1 per cent in Quarter 4 of the year. In the first three (3) quarters of 2009, GDP contracted by 6.2 per cent, 3.2 per cent and 3.9 per cent respectively (MDOS,

\(^2\) The New Economic Model is an initiative of the new Najib administration introduced after the dismal results of the general elections of March 2008, to address key economic concerns.
By the end of 2009, the rate of contraction declined to 1.2 per cent, which the government claimed was the result of the economic stimulus packages. For the year 2009, GDP contracted by minus 1.7 per cent at 2000 constant prices. Clearly, industries, business and household disposable incomes were negatively affected for the year 2009, with most sectors experiencing income and earnings reduction, recruitment freeze, wages stagnation and high unemployment. An Asian Development Bank (ADB) study documented the extent export and employment declines impacted the Gross Domestic Product of nations in East and Southeast Asia, with more serious impacts in open economies such as Malaysia (Khor & Sebastian, 2009).

A study by the consulting firm, Towers Perrin in April 2009 covering 1,172 firms in the Asia Pacific region, including Malaysia, showed that the majority of companies had frozen or reduced hiring, or were planning to do so due to the financial crisis. Voluntary staff turnover was expected to fall by 30 per cent in 2009 compared to 2008, while involuntary turnover would increase by over 30 per cent. About half of those surveyed would freeze or reduce or delay salary increases for 2009 and 2010. Budgets for salary increases were reportedly reduced for all levels of employees (Towers Perrin, 2009).

In the first two (2) quarters of 2009, unemployment in Malaysia increased sharply to 4 per cent and 3.6 per cent respectively (New Straits Times, 2010). The total number retrenched since 2008 was 40,000 by January 2010 (The Star, 2010a). Although Malaysians were affected, foreign workers bore the brunt of the layoffs because they represented more than a fifth of the work force. Most retrenched foreign workers were sent home. Many Indonesians stayed with odd jobs while others turned to crime to survive (The Star, 2009a; New Straits Times, 2009), causing social security issues (The Star, 2010b).

Consumer demand reacted swiftly. As early as the second half of 2008, grocery prices fell in tandem with oil price decline as global demand dropped. Malaysian consumers were urged to buy local, instead of imported products. Retailers of clothing, apparel and shopping goods slashed prices and restocked with lower priced inventory. There was a drastic loss of consumer confidence which also suppressed business investment to the extent of almost halting new activities altogether. Reductions and postponements of consumer purchase showed in informal Consumer Confidence Indexes such as that of Insight Asia Research Group (Kallenberg 2009), or the Big Mac Index by The Economist for purchasing power which ranked Malaysia the cheapest at US$1.70 (Soo, 2009).
In Malaysia, even before the crisis the government has been regularly subsidising across the board, a wide range of goods. In 2009, subsidies were maintained, or even increased, to the value at RM33.8 billion accounting for 16.4 per cent of the national budget. Fuel subsidy was RM9 billion, while subsidies for sugar, electricity and transport was RM4 billion for the year (StarBiz, 2009a). Malaysia’s Department of Statistics reported domestic demand for retail sales and motor vehicles sales reduction for Quarter 1 of 2009, when compared to Quarter 4 of 2008 and the corresponding period a year before (MDOS, 2009c). Industry sales volume dropped 3.5 per cent but the national car Proton had sales increase of 9 per cent in Quarter 2 of 2009 compared with the corresponding period one year ago because consumers switched to less expensive makes and models of passenger cars (Jagdev, 2009a). Consumer Price Index (CPI) turned negative in June 2009, the first time since 1986, as it fell 1.4 per cent from a year ago. The CPI continued to decline for the rest of 2009.

4. Services Based Policy Measures for Economic Recovery
As in other countries, Malaysia introduced a host of remedial action to buffer itself from the expected adverse effects of the 2008-09 crisis. The fundamental approach was expansionary in nature, along the Keynesian line. Fiscal and monetary policy measures accompanied financial sector reforms. Significant attention was given to boosting demand in the real economy through public sector spending. This was especially so when the crisis impacted the real economy more than the financial sector in Asia. As with other regional economies, Malaysia was certainly more prepared in the global crisis of 2008-09 than in the Asian crisis of 1997-98 to defend or deflect the unwelcomed economic, business and social consequences (Cheong, 2010).

However, it is observed that unlike before, interventions for the 2008-09 crisis moved beyond conventional public expenditure and support of manufacturing industries in terms of breadth or scope of remedial measures taken in handling the crisis. Attention was given to support a range of key services subsectors in different ways and intensity in the recent crisis compared to past effort in earlier recessions, because economies were increasingly developing modern, post-industrial service oriented systems. Recent policy measures capitalised on the importance of linkages within networks of services related manufacturing or services related agriculture or services related mining activities. Economic energy needed to flow through such networks for revival to take place. Although conventional
expenditure in previous crisis focused on public works, such as on infrastructure for transport like road works, hospitals and schools, typical for boosting demand and investment, and were expected to result in provision of public or social services, the multiplier effects were left to evolve much on their own. They were indirect interventions through government spending that would help bring about economic and business recovery. Such government programmes remained outside the largest services subsectors of distribution and financial services within the Malaysian economy. The past reliance on government services and construction services to bear fruit for economic recovery down the line was not as direct as interventions that touched households and individuals by raising consumer purchasing for immediate consumption, as those lately seen.

Also, for the recent crisis, the depth of actions assigned to the services sector was also planned and detailed in an unprecedented manner, in terms of type of services activities and beneficiaries of those measures. Targets were meticulously mapped for boosting demand and investment. The range of remedial programmes included direct consumer expenditures that would not only assist those displaced by the crisis but also ensure demand for businesses. For instance, distributive trade outlets for retail were called into play when grocery coupons were distributed to low income groups. The interventions directly involved domestic distribution services which made up the largest single services subsector of the economy. Direct economic boosting had always been confined to those under very limited welfare assistance for those in abject poverty, until broader scale adoption during the last crisis. Similarly, for skill training and re-training, direct subsidies were given to those retrenched, some with follow up services for job placement. Such depth of dispensing services to households for a large number of those impacted, was unprecedented, even during previous crisis.

Intra-sectoral linkages within the services sector itself, that is, networks of services activities that were crucial for driving demand among services subsectors, were also emphasised as economic growth drivers by the remedial programs. For example, health tourism service products would necessitate seamless provision and delivery of a host of interconnected services that included transportation and travel services, accommodation services, medical services, ancillary health services, food and beverage services, distributive trade services, professional services, business services and so forth. End-to-end client oriented services was a new feature. Another example partly alluded to above, was the services for alleviating the poor caused by job loss that covered not only direct grants for daily living, but
skill training, job placement services, social services related to various section of the service chain such as identifying eligibility and follow up services. The development of information and communication technologies on which most of the innovations of operating and delivering services for businesses, regardless of what goods or services were produced gave new impetus to the way work and organisations were managed, including those for crisis alleviation.

All levels of government, corporations and NGOs were involved in dispensing remedies (Sieh, 2010). The most important set of measures came from the Federal Government which has control over policy instruments, national resources and the public machinery. Adopting an expansionary path, monetary policies were affected to suppress interest rates and to ensure financial liquidity. Fiscal policies through budgetary and off-budgetary expenditures, lowering of taxation and other means were put into place to alleviate expected socio-economic woes. Administrative adjustments also took place. It was not easy to turn around expectations for 2010 even though the first quarter showed signs of slowing down of the recession, as measures started to come on stream. GDP was expected to grow by 4 per cent to 5 per cent for the year (Then, 2010).

While the focus on lifting manufacturing industries was of high priority as in previous crisis situations, because economic recovery was heavily dependent on investment by manufacturing firms that also provided employment and household incomes, attention was also given to services activities for social protection and for business recovery. The changing economic structure of Malaysia has grown beyond the industrialisation strategies of manufacturing industries into knowledge and services based industries, within the global economic environment and the regional ASEAN Framework Agreement on Services (AFAS) (ASEAN Secretariat, n.d.). To expand domestic distribution and consumption instead of depending heavily on export markets meant the need for measures that were wider in scope and greater in depth than ever before. Implementation programmes were carefully detailed for higher levels of synergy among the host of measures adopted. Unlike mere public expenditure on infrastructural projects as before, that were intended for public social services, the slew of recent services measures targeted beneficiary groups and identified households or individuals. They were delivered by invoking direct retail distribution services and financial services, the largest two services subsectors. They were faster in reaching those affected, and went beyond the usual projects for construction of roads, schools and hospitals that required longer gestation periods. They were not restricted to capital
development projects as before. The shift from capacity development for infrastructure to more consumer spending type of services measure involved service businesses besides speeding up alleviation of suffering within the system.

4.1 Economic stimulus packages

For Malaysia, the most important mitigating steps were contained in two economic stimulus packages totaling RM67 billion (Razak, 2009). The first package of RM7 billion commenced in November 2008, using savings from the oil subsidy reduction that started before the crisis. The second package worth RM60 billion was to cover two years from March 2009. The stimulus packages were for projects based on criteria of multiplier effects, speed, mass benefit, numbers affected, housing oriented and so on. As already observed, unlike recessions before, where the bulk of remedial actions went to public works and sustaining production in export oriented agriculture and manufacturing industries, many if not the majority of the projects in the stimulus packages were directed towards services oriented activities, to impact service industries and businesses.³

4.2 Services in the first stimulus package

The first package was predominantly geared towards stimulating demand for construction services and related industries, such as construction of low and medium cost houses, reviving abandoned housing projects, upgrading and maintaining public buildings for police stations and military camps. Together with social services, there were projects for construction and maintenance of schools for educational services, hospitals for health services, roads and public transportation for transportation services, and high speed broadband for information and telecommunication services. There were also projects for selected small township developments for housing services. A sizeable sum was also allocated for an Investment Fund to attract private investment and to assist financial services. Clearly, the first package was very much along the lines of conventional intervention measures for indirect boosting of demand.

³ Insights of how the interventions panned out on the ground are drawn by gathering whatever data available including selected media reports as they occurred. Notwithstanding aspersions cast on the latter’s reliability, news sources may remain the only immediately available write-ups of consequences that contain intricate details, which may be important for crisis management of such a scale. Some of these observations would emerge in later published reports, probably as aggregate statistics with less of the human element.
By September 2009, 53,076 projects costing RM6.07 billion from the first package were at various stages of implementation (Kok, 2009). Incentives for property construction (Yap, 2009a) and for the Light Rail Transit (LRT) projects were given out. As many as 5,630 households were reported to have benefitted from the first package assistance to construction services (StarBiz, 2009b). The LRT projects for extension of two lines in the Kelang Valley conurbation (Yap, 2009b) were allocated an additional RM7 billion for work to begin in Quarter 1 of 2010 for three years while trains worth RM1 billion would be added every 18 months. To increase public transport service usage from 16 per cent to 25 per cent by 2012, four hundred (400) new buses would be purchased for urban commuters (Sharidan, 2009). The package also assisted businesses of government linked companies with trickle down effects to SMEs many of which are in distributive trade and personal services (Daljit & Laalitha, 2009). The rapid injection of a sizeable amount of project funds reportedly resulted in positive results in terms of income and jobs, probably confined to those activities themselves (The Star, 2009b).

4.3 Services in the second stimulus package
The second economic package was introduced as the recession deepened and economic growth fell, before the effects of the first package would have exhausted its gestation period to produce visible results. There was a significant shift in emphasis towards direct household benefits among those affected by providing consumer and business financial services beyond capacity development work, where other key service subsectors, particularly distributive and financial subsectors were involved. The second package was a two year mini-budget, comprising four (4) thrusts.

Thrust 1 at RM2 billion was for reducing unemployment by creating 100,000 training opportunities and for job placements with government collaboration through 63,000 direct government contract jobs. They invoked training services, job matching and placement services albeit within the public service area, and involved social and financial services activities for their implementation.

Thrust 2 utilised RM10 billion for easing the burden of vulnerable groups. They included subsidies for basic necessities that required distribution services; increasing home ownership through social housing services; introducing special Islamic saving bond schemes for all citizens, primarily to assist those who relied heavily on personal savings, hence consumer related financial services; improving public infrastructure services including in less developed areas of Sabah and Sarawak; providing
basic amenities through power and water utilities services, and roads for rural areas; starting human capital development programmes and upgrading school facilities for educational and training services; initiating micro-credit for farmers and rural small businesses and a Fishermen’s Welfare Fund through small business and welfare financing services. Examples of these special consumer service projects were:

i) Merdeka Savings Bonds that were issued in March 2009 and were taken up almost the very day they were offered. They were intended for the aged, retirees and pensioners who lived on interests from savings. The interest of 5 per cent per annum for three (3) years is payable on a monthly basis and was much higher than those for regular savings in commercial banks (Bon Simpanan Merdeka, n.d.).

ii) The Ministry of Rural Development’s plan to provide housing, clean water, electricity for 250,000 hard-core poor in three (3) years beginning from 2010 at a cost of RM17.4 billion (The Star, 2010b).

iii) A free rice scheme that distributed coupons to 200,000 poor families from the latter part of 2009, the first round of which required five (5) to six (6) months to complete. Eventually, the programme would cover 1,000,000 poor families that were eligible for the scheme (Noor, 2009). The hard core poor registered with the Welfare Department received three (3) coupons worth RM24 each per month. Those in the poor category received three (3) RM10 coupons. During implementation, the scheme uncovered other problems among some rural residents due to logistical reasons that were rectified.

Thrust 3 valued at RM29 billion targeted private sector businesses in the face of the global financial crisis. They provided financing under the Working Capital Guarantee Scheme to businesses in the Industry Restructuring Scheme for raising productivity, for deploying value added activities, for adopting environmental friendly goods and services in the Green Technology scheme, for reducing cost of doing business, for facilitating access to the capital market, for attracting high net worth and skilled human resources, for encouraging investment by businesses and other business recovery schemes. Such financial, professional and business
promotion services were to ensure business survival during the recession period of the crisis. Examples of business support service project included:

i) The Government’s allocation of RM3.04 billion in 2009 for SME capabilities through 174 programmes during the difficult period, in addition to the RM3 billion for 202 programmes to help 598,000 SMEs in 2008 (The Star 2009c).

ii) Approval of micro-financing applications in six (6) days by financial institutions, with disbursements in four (4) days.

iii) Between March to November 2009, the special RM5,000 financial rebate scheme to help the automobile industry was fully implemented, where 31,000 car owners benefited from the rebate by replacing their old Proton models that were ten (10) years or older. The voluntary scheme helped the poorer market segment while assisted car sales and environment protection (Lee, Zulkifli, Loh, & Teh, 2009).

Thrust 4 worth RM19 billion targeted investments by the government investment corporations plus off-budget projects, private finance initiatives, liberalisation of the services sector, revamping the Foreign Investment Committee that regulated Foreign Direct Investments equity conditions, developing creative arts industries, and improving management of government financial resources. They encompassed a broad range of financial and investment services, professional and business services, developing creative service industries and the government’s own administrative services geared to financial services. In particular, steps were taken to manage the contraction in loan application among manufacturing, trading and SME businesses and to boost corporate and government linked companies’ activities. The rising non-performing loans in the securities and construction industries, and loans for working capital would be curbed with the support of the stimulus packages (Daljit & Laalitha, 2009).

Of great importance was the introduction of the Services Sector Capacity Development Fund to provide grants to local services subsectors and organisations. This came after the Malaysian government’s liberalisation of 27 services subsectors where foreign investors are allowed 100 per cent equity ownership. The fund assisted training and outreach programmes, accreditation, mergers and acquisitions, and upgrading and modernisation of services businesses (MIDA, 2009). With only RM100
million, the fund was quickly exhausted by November 2009, with demand from a wide spectrum of services activities. The Malaysian Industrial Development Authority was tasked with monitoring the beneficiaries of the programmes (Sieh, L. M. L., personal communication, December 2009).

5. Rebound of Services Subsectors and the Economy

The overall effectiveness of the host of measures appeared to have been impressive, although it is recognised that other factors both internal within Malaysia and external, especially by being plugged into the vibrant economies of China and India would have been as important. By Quarter 4 of 2009, the trickle-down effects of the massive stimulus packages along with those other factors were felt. At the same time, the combined regional ASEAN and global efforts of economic pump-priming, financed through huge national budget deficits, could not but bring about increased economic activities and some rebound. They were translated into export trade recovery, as seen in Malaysia’s surprising trade performance in October 2009 (Jagdev, 2009b). Certainly, these effects require detailed quantitative analysis, which is the subject of another research. In particular, the contribution of Malaysia’s own effort compared to the force of external indirect support and the part played by the specific steps within stimulus packages would require clarity. As in the Asian crisis, Malaysia was not dependent on IMF assistance nor country specific prescription for recovery, despite recognition of much needed reforms in the global financial architecture and support for other inter-governmental initiatives. However, Malaysia did incorporate some World Bank findings when implementing social care or development programmes, such as full participation of women as a critical success factor for social and poverty projects. This was evident in SME initiatives and other skill training programmes designed for crisis alleviation.

Despite the negative GDP growth of 2009, for the year 2010, the economy rebounded and expanded at a rate of 7 per cent, surpassing the expectation seen during Quarter 1 when the stimulus packages were first put into action (Then, 2010). The biggest growth came from manufacturing industries where 10.8 per cent increase was recorded for 2010. This was accentuated by the low base of a negative growth of 9.4 per cent in 2009. Services sector was the second important growth sector in 2010 with 6.5 per cent increase, after remaining robust, with a growth of 2.6 per cent in the thick of the crisis stricken year of 2009. Services subsectors did not decline except for transportation and storage services. The questions turned
to the pattern, timing and speed of the economic recovery, particularly its sustainability.

A number of initiatives contributed to the economic recovery. The work of PEMUDAH, a high level government-initiated, action-oriented committee for solving issues faced by businesses, helped to iron out government-business problems on the ground. Chaired by the Chief Secretary to the Malaysian Government and co-chaired by a corporate executive, they worked more closely together to improve government services delivery in all agencies when the crisis broke out, such as faster fund disbursements to SMEs. Existing committees and councils were mobilised to focus on the difficult conditions related to their work coverage. The Implementation and Performance Unit of the Prime Minister’s Department took out full-page newspaper advertisements to reach out to those with views and suggestions on a number of areas of public interest through a ‘Lab Open Day’ convention as part of the Government Transformation Programme, covering issues like crime reduction, providing quality and affordable education, improving public transport, enhancing rural basic infrastructure, eradicating corruption, decreasing poverty, and strengthening unity (StarTwo, 2009). A New Economic Model was adopted, incorporating ambitious strategic programmes and a number of New Key Economic Areas (NEM 2010). These supported the regular Tenth Malaysia Plan 2010 for the next five years.

Within the private business community, corporate social responsibility among public listed corporations and bigger enterprises played their part. Multinational corporations (MNCs) and domestic firms in Malaysia were prompted to move beyond their conventional social and philanthropic causes towards programmes to alleviate suffering among the poor and crisis afflicted families. The second largest local banking group, CIMB, pledged RM100 million for the next three (3) years. For 2008, grants worth RM8.5 million were given to one hundred and twenty eight (128) projects. In 2009, the amount was doubled to benefit more than one hundred and fifty (150) projects focusing mainly on education, community development and sports development. Another Malaysian corporation, Ambank, also donated towards food-aid programmes that subsidised essential household groceries on a monthly basis, for one (1) year, for two hundred (200) families. MNCs such as Nestle continued with their on-going CSR activities that emphasised nutrition, water, rural development, contributing to nation-building and to society while complying with laws and regulations in a corrupt-free way of conducting business, and to cost cutting and waste reduction measures. During the crisis, Microsoft focused on education and
developing human capital; building local software through innovations; and bridging the digital divide in society through the use of cost efficient technologies such as tele-conferencing, video-conferencing and voice-conferencing.

Among voluntary organisations, many had to fall back on their reserves, while those with traditional ties to funding sources were able to continue operating as before. Charities established by religious institutions, such as temples, mosques and churches continued, if not intensified to alleviate suffering during the crisis. Backed by corporate donations, the Lions Club, a Non Government Organisation (NGO), assisted in selecting recipient families for a programme on financial literacy training and another on skills training (StarMetro, 2009a). Joint projects between companies and NGOs were common, such as that of Celcom broadband users’ donations (StarMetro, 2009b).

5.1 Services subsector performance

For Malaysia, data published in 2010 suggests that the services sector did play a significant part through the many projects involving the sector. Both government and non-government services played their respective roles possibly contributing to helping the Malaysian economy out of the depressive effects.

Despite the onslaught of recessionary forces, the services sector as a whole stood relatively firm in terms of contribution to GDP and in terms of output growth by non-government services. Over the five (5) years from 2006 to 2010, non-government services share of GDP increased from 48 per cent to 53 per cent of GDP, displaying annual positive growth. The non-government services share of GDP increased to 53.3 per cent in 2009 but dipped marginally to 53 per cent in 2010. Taken together with government services, they experienced a growth of 2.8 per cent in 2009 but picked up speed to grow at 6.4 per cent in 2010, which was still short of the pre-crisis 7.2 per cent of 2008. Compared with 2006 and 2007, the growth rates of all services outputs slowed considerably (see Tables 1 and 2).

The support of the numerous measures discussed above, was manifested through services subsectors that were beneficiaries of the action taken, although there were variations among different services subsectors’ contribution to GDP shares. It is remarkable that throughout the crisis-hit period from 2008 to 2010, every single non-government services subsector recorded positive growth with only one exception, that is transport and storage services which shrank by negative 2.8 per cent in 2009. While some services subsectors grew much less than others, notably utilities services
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growing at only 0.4 per cent in 2009, and real estate and business services with second lowest growth at 2.4 per cent in 2009. Freight logistics and those supporting merchandise and commodity exports needed help badly because of excessive idle capacity. However, the stimulus packages made use of the range of services activities not only for the sake of those services industries themselves, but more as channels to target other industries in the rest of the economy. For instance, the real estate and business services subsector was propped up by the first stimulus package that gave priority for uplifting social housing and public services by providing work for construction and property services (Economic Report 2010/11).

Distributive trade comprising wholesale and retail services remained the largest single subsector accounting for 13.4 per cent of GDP in 2010. Finance and insurance subsector was second by size with 11.7 per cent of GDP, having encountered direct setbacks during the financial crisis. The recoveries of wholesale and retail distributive trade services, communication services, and transportation and storage services from 2009 were markedly significant. Output growth recorded 7.4 per cent, 7.3 per cent and 7 per cent respectively for these three (3) subsectors in 2010. Clearly, specific service industries falling within these subsectors were major players responsible for the overall non-government services growth of 6.4 per cent for the year, lifting the low growth of only 2.8 per cent in 2009 (Economic Report 2010/11). Other services subsectors also expanded but they were of secondary importance as far as economic recovery effort is concerned because of their lower growth rates among non-government services (see Table 2).

Even as analysts await more detailed data for robust studies, credit would be accorded to services sector strategies contained in the Government policy measures of the economic stimulus packages, without forgetting the host of other changes, adjustments and institutional reforms.

6. Implications and Need to Strengthen Service Industries

Notwithstanding the deployment of services industries and monetised services activities as important avenues for remedies during the recent financial crisis and that the services sector has emerged as a major contributor that bears potentially strong multiplier effects for recovery in emerging economies such as Malaysia, the above discussion suggests at least three (3) implications for services within the economy for crisis conditions and for future economic growth. First, comparative analysis on relative multiplier effects that result from previous indirect expenditure

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that supported economic sectors particularly infrastructure development and selected manufacturing industries, on the one hand, and direct intervention with clearly defined boosting of demand, especially through a broad spectrum of services activities as recently seen, on the other.

Secondly, more work is needed to understand the relationship between recovery steps for different types of service based actions in terms of speed of fruition, efficiency and effectiveness. Comparisons of different subsectors will help tailor future remedial programmes. Previous research that adapted a trade lead-lag model for economic growth, had suggested that some services subsectors tend to lead economic growth, some lagged growth while others displayed parallel or simultaneous growth patterns (Yap, 1989). If so, anti-crisis measures may be refined for sharper targeting of outcomes, particularly in terms of sequencing and timing of execution of those actions. For instance, research and development services and market research could be incentivised early if they are found to lead economic growth, while transportation and storage services may be implemented later in the recovery programme if they lag growth. Those that correlate well in time along with GDP growth may then be phased in accordingly.

Thirdly, despite the performance of services industries during the recent crisis, it is recognised that services activities in Malaysia are far from competitive and may not be adequately developed to play a recovery role when called upon in future recessions. Table 2 shows that the sector remained positive in terms of growth in the depth of the crisis, compared to the negative position of manufacturing in 2009. Nevertheless, the services sector needs to keep pace with shifts in the structure of the economy. Services industries need experimental business models, new operational methods, untried service delivery systems, ICT innovations and reliable global production networks. For markets domestically, regionally or between regions, services industries need to engage strong backward and forward linkages. It is therefore important to strengthen services industries, not only for overall economic growth in good times but also as possible solutions for economic downturns. There are indicators that weaknesses that pervade the services sector need to be improved, in order to prepare them for greater future roles.

Some areas that may be considered include the low level of productivity growth rates observed among services industries. The issues of exhaustion of human resource flow into the services sector from other sectors, especially from the agriculture sector, need attention. Another concern is low tech, labour intensive services production and services delivery in general, accompanied by continued heavy reliance on low skill,
foreign workers within the sector. Insufficient market competition to drive efficiency because of relatively sheltered markets for some services - especially professional services with high entry barriers - also requires study. These matters are related to reluctance to invest in appropriate technology to compete effectively, and possibly low deployment of high skilled individuals for intellectual property needed to drive services growth among firms.

Work is also necessary to address inadequate investment in appropriate types of human capital needed, and low levels of investment for services production-and-delivery capacity building, particularly for knowledge intensive services. Investment for developing core service specific technology, that is specialist experts, is needed as much as for non-core service work, such as for basic work skills and work attitudes among auxiliary support service workers. Market development and marketing of services products also require expertise different from those for marketing tangible merchandise goods.

Malaysia has been experiencing a decline in FDI inflow generally and to some extent into services businesses and operations. The reasons for being uncompetitive in attracting MNCs for manufacturing that demand services, and for services FDIs themselves should be examined and rectified if possible, bearing in mind the increasing options available to FDIs especially within BRICS (Brazil, Russia, India, China and South Africa) economies. However, Malaysia’s official market access in GATS is limited in some services, causing uncertainty of future corporate strategy for those that already invested. For example, distributive trade remains unoffered except in the ASEAN agreement. Limitations on expatriate human resource employment with specific qualifications and professional skills, uncompetitive income tax rates compared to neighbouring locations and inadequate social-living-security infrastructure for expatriate families have often been heard.

Among Malaysian firms and entrepreneurs, investment in services businesses has not been as forthcoming as the policy makers would like. A plethora of factors have been raised in public platforms and dialogues with government agencies and regulators. They include inefficiencies of public and private organisations such as high human errors causing unreasonable delays; weak administrators and processes despite use of ICT, such as inexcusable postponements, missing files and documents, corrupt practices; difficulties reported by SMEs’ dealing with public authorities such as absence of follow-through culture for completion of tasks, absence of programmes for maintenance and repair of equipments,
buildings, facilities and infrastructure; and inadequate financing facilities for genuine services entrepreneurs.

With regards to services market liberalisation and the interconnections of Malaysia within the regional and global economies, Malaysian businesses have not taken full advantage of the number of bilateral and multilateral trade agreements already in place. This may possibly be due to Malaysia’s uncompetitive services export especially through mode 3 (trade in service by commercial presence) and mode 4 (trade in service through movement of service personnel), while mode 1 (trade in service across border) and mode 2 (trade in service by consumption abroad) services export have not reached their potential. More work is needed to delve into the reasons for such a situation. Similar research into the trend of increasing Malaysian direct investment abroad is needed. In 2008, direct investments abroad by Malaysian firms exceeded FDI inflows, and analysis is needed to understand the competition for investment from locations in East and Southeast Asia for all kinds of businesses because they would either be users or producers of services.

7. Conclusion

The finding of positive services growth in 2009 and 2010, despite the abnormal economic condition is important from the viewpoint of remedial action for policy intervention (see Table 2). The ability of the services sector to remain positive under harsh conditions is commendable. It remains unclear what the relative extent of the economic rebound is attributable directly and indirectly to service oriented policy intervention and to non-service sector action, and how they compare with other administrative reforms such as ensuring financial liquidity and sustainable domestic demand. Further econometric analysis is needed on the relative efficacy of the alternatives. More understanding is needed on their speed of effectiveness in terms of gestation period for results, their direct and indirect contribution to economic growth, the timing and sequencing of specific remedial programmes that combine various strategies, correlates between magnitude of action and impact on various economic variables, and so on. Their combination and mix of services and non-services strategies need further investigation.

Within services, there are indications that labour productivity in the sector is reaching saturation point whilst more can be achieved through education and training improvements. Capital productivity in services is dependent on the overall socio-economic-political climate of the country.
in attracting investment, partly through reaching higher levels of national competitiveness in the global context. Great effort is being put in by the Malaysian Government to improve total factor productivity through a myriad of reforms, innovations and transformations that touch almost every level of society, digging deep to unearth ills such as corruption and stretching high to claim goals that have never been set before. Certainly, services lie in the heart of many of these attempts. A crucial lesson from the recent crisis for developing economies like Malaysia is to unlock the value of services as never before. Certainly, monetised services activities deserve more serious study; towards achieving higher economic value add.

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