# Autonomous Liberalisation of Services Sub-sectors: Its Impacts on the Engineering Industry

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**MALAYSIA** undertakes various approaches to liberalising the services sector; unilaterally, as well as bilaterally, regionally and multilaterally through trade agreements. Through unilateral or autonomous liberalisation, Malaysia further opened several important services sub-sectors with the prime objective of accelerating growth, improving quality and standards and competitiveness of this sector.

The Government of Malaysia had identified 27 services sub-sectors for its autonomous liberalisation move beginning April 2009, with the aims to attract more foreign investments, to acquire more professionals, to enhance the transfer of technology as well as to strengthen the competitiveness of the services sector.[i] This on-going move to liberalise the services sub-sectors has made major progress since then. In October 2011, the Government announced in Budget 2012 that it would liberalise an additional 17 services sub-sectors in phases from year 2012 onwards.[ii]

As reported in the News Straits Times on 16 November 2012, liberalisation of six services, namely the legal, medical specialist, dental specialist, international school, private universities and telecommunications, comprising Network Facilities Providers (NFP) and Network Services Providers (NSP), have been implemented. Also reported in the news was the liberalisation of the remaining services, namely the engineering, architectural services and quantity surveying services, would be announced once the amended legislations giving effect to the liberalisation was approved.[iii]

At a glance, liberalisation seems to have benefited the Malaysian services industries in various ways. However, when it comes to the autonomous liberalisation of the engineering and architecture sub-sectors, there are concerns on the issues of professionalism, safety, health and environment. In order to understand the impacts of the autonomous liberalisation of the engineering and architecture sub-sectors, and the key roles played by the Ministry of International Trade and Industry (MITI) in overseeing the progress of liberalisation, *JURUTERA* took the opportunity to interview Y.Bhg. Datuk Dr Rebecca Fatima Sta Maria, the Secretary General of MITI.

## THE ROLE OF MITI IN LIBERALISATION OF THE SERVICES SUB-SECTORS

According to Y.Bhg. Datuk Dr Rebecca Fatima Sta Maria, the Secretary General of MITI, the services industry is diverse and falls under various ministries. There are 18 ministries and 32 government agencies overseeing the different services sub-sectors. Taking into consideration the potential of the services sector, in 2008, the Cabinet decided for MITI to coordinate the development of the services sector, particularly to accelerate the liberalisation of the services sector.

As the ministry that is responsible to overseeing the execution of international trade, MITI leads and coordinates negotiations of all Free Trade Agreements (FTAs) ranging from bilateral and multilateral to regional FTAs for goods, commodity as well as services.

*Y.Bhg. Datuk Dr Rebecca Fatima Sta Maria, Secretary General of MITI*

[i] http://malaysiabizadvisory.com/malaysia-liberalisation-of-services-sector/
[ii] http://biz.thestar.com.my/news/story.asp?file=/2011/12/19/business/10122023
[iii] http://www.nst.com.my/latest/najib-announces-liberalisation-of-six-sub-sectors-1.172188

MITI has taken various initiatives to implement the liberalisation of these services sub-sectors. "One of the major initiatives is the establishment of the Malaysia Services Development Council (MSDC) as the national body that monitors the development of the services sector including its liberalisation. The MITI Minister is the chair and MITI provides the secretariat to the MSDC.

"MSDC has put in place a comprehensive scorecard to monitor the implementation of services liberalisation. And the elements in the scorecard include domestic regulations, promotional activities, as well as capacity building," said Datuk Dr Rebecca.

In addition, she explained that the Malaysian Productivity Corporation (MPC), an agency under MITI, is undertaking work to put in place the Business Enabling Framework (BEF) for the liberalised services sub-sectors. MITI has also commissioned a study on domestic regulations to enhance the competitiveness of the services sector. Promotional activities for investment in and export of services are being organised by MIDA and MATRADE.

In terms of capacity building, Datuk Dr Rebecca commented, "Owing to the fact that 98% of businesses in the services sector are SMEs, the SME Master Plan (2012-2020) by SME Corp. Malaysia was structured specifically for the development of SMEs in key focus areas namely innovation and technology, human capital, financing, market regulations and infrastructure."

*Table 1*

| Initiatives | Actions |
|---|---|
| **Ensure industry readiness of new entrants into the workforce** | • Establish Talent Advancement Programme (TAP) that enable graduates attachment in SMEs; and<br>• Apprentice programme for lecturers to work in SMEs |
| **Transform polytechnics and technical fields into a career of choice** | • Rebranding of these institutions by:<br>• increasing professionalism in the field;<br>• creating good training ambience; and<br>• linking the institutions with foreign counterparts |
| **Tap-on talent from abroad to address skills shortage among SMEs** | • Retention of JPA and MARA scholars, so that they could work with local SMEs; and<br>• Establish Skill Transfer Programme to encourage and permit foreign talents to work in Malaysia to train SMEs |
| **Intensified Human Capital Training programme to meet specialised skill needs** | • To expand the sector coverage of Human Resource Development Fund (HRDF) especially the services sub-sectors; and<br>• To promote and educate the SMEs the benefits of training programmes to their businesses |

Building capacity of SMEs will be paramount not only towards enhancing the skills and productivity of SMEs, but also to ensure resilience of SMEs in sustaining their businesses over the long term amidst an uncertain external environment and competition from liberalisation of markets. Under the SME Masterplan, one of the four thematic areas focuses on building capacity through knowledge acquisition and skills upgrade. Four main initiatives proposed under this theme are summarised in Table 1.

According to MITI, data on trade and investment in services are collected and compiled by various Government agencies. The Working Group on Services Statistics (WGSS), chaired by EPU, was established in 2010 to work on developing a coordinated data collection plan to improve services statistics. The WGSS is working towards strengthening services statistics aimed at supporting policy decisions for the development of the services sector.

## PROFESSIONALISM AND SAFETY CONCERNS

The following remarks quoted from the press statement, "IEM's Stand on Liberalisation in Budget 2012", highlight IEM's concerns pertaining to the professional, safety and ethical aspects upon liberalisation of the engineering and architecture sectors:

*"Aligning with common practices in free trade, the laws relating to engineering practice are also being amended to allow anyone, including the possibility for non-professional engineers, to invest in and to own 100% of Engineering Consultancy Practices' (ECP). All that is needed is just to "employ" or appoint two or three professional engineers as directors to take full responsibility for the decisions taken. If this is to happen, business interests will be expected to take precedence over professional concerns and profits will supersede the need to ensure health, safety and quality."*

When Datuk Dr Rebecca was asked about MITI's perspective pertaining to the above issues, she replied, "Safety of the public is of paramount importance and the Government has put in place relevant legislations to protect the public. The issue of including non-professionals is very much the decision of professional boards as a means to bring in capital and entrepreneurship. However, professional boards should not use this as a reason to shield the profession from competition".

She further commented, "Business interest will never supersede the need to ensure health, safety and quality, as it is the latter three elements that ensure there is business interest as well as makes the profession or the company marketable".

"Professionalism and work ethics are two important features in any business, regardless of its size – small or big. Strong ethics are important in our work," emphasized the Secretary General of MITI. She continued, "In business, common traits such as transparency, honesty, professionalism and integrity are of utmost importance."

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"In Malaysia, we have professional boards regulating as well as having their own Code of Ethics or Professional Conduct," said Datuk Dr Rebecca, "Each member would need to adhere to these Codes of Ethics and professional conduct, uphold the professional standards of its profession which includes health, safety and quality issues".

She pointed out that the Code of Professional Conduct for the engineers takes care of the professional engineers to ensure professionals work professionally and do not undertake activities which can make him or her liable to be fined or de-registered by the Board. These are paramount to ensure safety, health and welfare of the public. "We have laws such as the Registration of Engineers Act that metes out punishment for those that carry out misconduct or malpractice such as compromising health, safety and quality," said Datuk Dr Rebecca.

### THE PROS AND CONS OF LIBERALISATION OF THE SERVICES SUB-SECTORS

Apart from the above-mentioned professionalism, ethical and safety concerns, liberalisation of the services sub-sectors especially the engineering and architecture sectors also poses various pros and cons. However, from MITI's standpoint, there are more advantages than disadvantages for liberalising the services sub-sectors.

According to MITI, currently most of the investment in the services sector comes from domestic investment. In 2011, foreign investment in the services sector accounted for 25.4% (RM17.9 billion) share of total FDI for services, while the domestic investment accounted for 74.6% (52.5 billion). Liberalisation will be one of the initiatives to attract more foreign investments into the sector.

The liberalization of the 18 sub-sectors, which include architectural and engineering services, were determined after extensive consultation with the Ministries and agencies of the relevant sectors. According to Datuk Dr Rebecca, "These sub-sectors were selected as they would create new capacities and capabilities in the country by increasing the stock of services available. Furthermore, the excess capacity generated can be exported regionally." She continued, "Not only will these sub-sectors have a major impact on the economy due to the substantial foreign investments they are able to attract, but they will also have a high multiplier effect on the economy".

"Growth of professional services such as engineering is critical as they have high potential to add value to the economy, besides having a significant multiplier effect on the economy and potential to improve productivity," commented Datuk Dr Rebecca. She added, "Liberalisation offers opportunities for transfer of capital, expertise and technology to domestic firms. It also provides opportunities for domestic firms to joint venture with foreign firms to expand their business overseas. Malaysian companies are now globally competitive and venturing into overseas markets. SP Setia, InfoValley, GDex, and KPJ Healthcare Berhad are some of the examples".

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The Secretary General of MITI also pointed out a positive effect of liberalisation of the services sector. As liberalisation generates increased competitive challenges, domestic firms are forced to improve their competitiveness by eliminating unnecessary cost components, exploit external economies of scale and scope, as well as adopt more innovative technologies and better management practices.

"However, the downside to this scenario is the possibility of inefficient, unproductive or uncompetitive local firms going out of business," cautioned Datuk Dr Rebecca. She added, "To overcome these challenges, liberalisation initiatives have to be complemented with support programmes such as funding and capacity development of domestic manpower to strengthen the domestic service industry".

### According to MITI, the following are financial assistance available for the services sectors which include soft loans such as:

- **Soft Loan Scheme for Services Capacity Development (SLSCD)**
  Administered by the Malaysian Industrial Development Finance Berhad (MIDF), the SLSCD is applicable for upgrading and modernising of operations to diversify into higher value-added activities and to improve productivity and efficiency of service delivery. This will assist local service providers to build up capacity in order to withstand competition.

- **Soft Loan Scheme for Small and Medium Enterprises (SLSME)**
  Launched in December 2001, the SLSME promotes the development of small and medium enterprises in Malaysia. This scheme assists the existing and new start-up enterprises in project, fixed asset and working capital financing.

- **Soft Loan Scheme for Services Sector (SLSSS)**
  This scheme provides financing assistance to new start-up companies or enterprises for the purpose of

expansion, upgrading, modernisation or diversification of existing services into higher value-added activities as well as improving productivity and efficiency in service delivery.

- **Domestic Strategic Investment Fund (administered by MIDA)**
  RM1 billion fund allocated to stimulate domestic investments and to fast-track the participation of Malaysian companies in the global supply chain of targeted industries (aerospace, medical devices, pharmaceuticals, advanced electronics, machinery and equipment, renewable energy, bio-technology) which are high-value added, high technology, knowledge-intensive and innovation-based. The fund is available for Malaysian-owned companies seeking to improve or upgrade their technological capabilities via technology acquisition or to obtain international standards in strategic industries for outsourcing opportunities from global companies.

- **Market Development Grant (administered by MATRADE)**
  The Market Development Grant (MDG) is a scheme introduced to assist the SMEs, service providers, cooperatives and trade and industry associations/ chambers of commerce and professional bodies in undertaking export promotional activities. Companies can apply for a reimbursable grant on the eligible export promotional activities undertaken. The value of the grant reimbursed will be determined by MATRADE based on locations and type of export promotional activities undertaken. MDG applicants can claim up to a maximum grant of RM100,000.00 per company per year, subject to the availability of fund.

## CONCLUSION

From the perspective of MITI, liberalisation of the services sub-sectors would provide opportunities for domestic joint ventures, and collaboration in overseas ventures, and by extension this would inject competitiveness into local engineering firms in Malaysia. Moreover, various programmes and incentives have been made available for local service providers to strengthen their competitiveness and add new capacity to take advantage of opportunities in the domestic markets as well as in the foreign markets.

"Liberalisation should be complemented with a good regulatory environment to ensure that consumer protection, service standards and other public interest objectives are met," added Datuk Dr Rebecca. "Globalisation and liberalisation are inevitable. The Government is ready to assist our corporate sector to be strategically prepared for greater challenges and stiffer competition," concluded the Secretary General of MITI. ■