Business Services


File photo

For the full report,
please visit the Inside Investor store:
store.insideinvestor.com

BUSINESS SERVICES

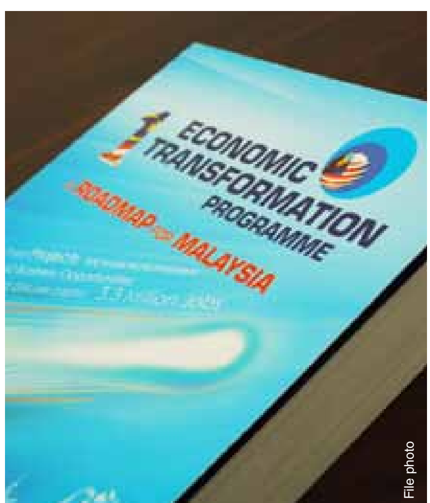
Making services more competitive

File photo

Malaysia's business services sector was the largest contributor to GDP in 2011. Economic reforms have been positioned to leverage the nation's competitive advantages in MRO services, Islamic finance KPO and IT outsourcing, as well as catalyse alternative energy and other industries.

As a service sector-led economy, Malaysia faces a host of issues in the battle to sustain recent growth ranging from brain drain to inadequate skill levels of graduates and a general lack of centralisation. Last year, the service sector was the largest contributor to the nation's real GDP with a 58.6 per cent share, according to the Borneo Post, maintaining a 6.8 per cent growth rate year-on-year. How long these growth levels are kept on track largely depends on the effectiveness of economic reforms to leverage already existing competitive advantages while grooming a skilled workforce that totals 35 per cent of the business services sector in Malaysia, compared to the 49 per cent that make up the overall workforce in Singapore.

Malaysia already has existing strengths in maintenance, repair and overhaul (MRO) services, Islamic banking knowledge-process outsourcing (KPO) and IT outsourcing, but sits in an awkward position as a middle-income economy that faces tough competition



File photo

The ETP will work to raise the percentage of skilled workers in the business services sector from 35 to 46 per cent by 2020.

outsourcing services when brought up against countries with low-cost labour or the high valued-added companies of advanced economies. The Economic Transformation Programme (ETP), an economic outline drawn up to guide the country towards high-income status by 2020, will work to raise the percentage of skilled workers in the business services sector from 35 to 46 per cent by 2020 by building local capacity, rewriting tertiary school curricula according to demands in relevant sectors, bringing in global talent and increasing the participation of women in the workforce. As of 2008, 4.1 per cent of Malaysia's GDP was allocated for education spending, abreast with Thailand (2009) and just behind Hong Kong's 4.5 per cent (2009) and Vietnam's 5.3 per cent (2008).

Malaysian Aerospace Engineering (MAE), a subsidiary of the stated-owned airline Malaysian Airline System (MAS), is well positioned to become an anchoring player for the MRO service industry having already accumulated a

BUSINESS SERVICES

portfolio with more than 100 customers from around the world, including Lufthansa, United Airlines and Emirates, with revenues rising from RM179 million in 2005 to RM384 million in 2009. Stoked regional demand – led by economic powerhouses India and China – will likely support continued growth across the industry.

Last October, a joint venture between MAE and GMR Hyderabad International Airport Ltd. (GHIAL) launched MAS-GMR Aerospace Engineering Company Ltd (MGAE), an MRO service facility at the Rajiv Gandhi International Airport, Hyderabad in India that has the distinction of being the first such MRO compound in the special economic zone, according to the MAE website. MGAE has about 350 employees, the majority of whom are Indian, as well as retired MAS engineers and technicians. Malaysia Airport Holdings Bhd (MAHB) is also a key partner in international airports across South Asia, such as in Maldives and India.

There is a lack of standardised aviation regulations, however, that encumbers the MRO sub-sector, as well as a negligible spare parts supply chain and talent pool. To begin benchmarking against international standards, the Ministry of Transport is being tasked with establishing a governing board stitched together by government and industry under the guidelines of the recently drafted Malaysian Aerospace Blueprint. As for the deficit of a spare parts ecosystem and skilled workforce, MAE is slated to construct and establish a spare parts supply chain at Subang Airport by 2013, and engineer training grants worth up to RM24 million will be available from 2011 to 2013 to ensure a sufficient quantity of human capital.

As a middle-income, Muslim-majority country, Malaysia's domestic demand for Shariah-compliant financial products has led to the nation becoming a leader in sukuk issuance (Islamic bonds) and the third largest Islamic finance market in the world. Today Malaysia captures 48 per cent of the global sukuk market. However, once again, local talent levels fail to tie up with sustained growth projections. According to the ETP, just 25 per cent of finance and accounting professionals in Malaysia are capable of being employed by multinational companies, compared to 30 per cent in the Philippines and 40 per cent in the Czech Republic.

Yet Malaysia's experience, know-how and organisational structuring in the industry are arguably strong enough assets to make the country an Islamic finance hub. In order to highlight these alluring qualities in the Malaysian finance advisory and consultancy services (I-FACS) segment, a consortium of Shariah scholars and practitioners, Islamic finance lawyers, accountants, actuaries and Shariah auditors has been established, as outlined in the ETP. Through the consortium, Islamic fund management companies, such as Aberdeen Asset Management and Asian Islamic Investment will benefit from guidance on how to meet global benchmarks of sukuk issuances and other products, develop innovative solutions in the Islamic finance market, encourage flexibility with regards to differing Shariah-law interpretations and identify the specific skill sets the industry most demands. Organisations and entities such as The International Center for Education in Islamic Finance (INCEIF) and The Islamic Banking and Finance Institute Malaysia (IBFIM) are also well positioned to contribute to the consortium.

Outsourcing, especially in the IT sector, has become an inexorable global trend as developing countries seek to leverage their low-cost labour and multinational corporations buzz into Southeast Asia looking for central nodes from which to base their regional operations. The outsourcing industry in the Asia Pacific is forecast to expand by 12 per cent per in the 2009 to 2014 period.

And between 2003 and 2004, Malaysian outsourcing industries experienced a nine per cent growth rate. Despite ostensibly positive projections, the sector is still fragmented. In the business process outsourcing (BPO) segment, Symphony Group looks best positioned to anchor the industry.

As foreign companies large and small look to find efficient solutions to store data, specialised services such as cloud computing that require secure facilities and sophisticated computer systems will be in greater demand. Malaysia had 500,000 square feet of data center (DC) floor space as of 2010, supplying approximately four per cent of the total floor space in the Asia Pacific region, a market in which the DC industry is projected to grow by 16.3 per cent annually, accumulating RM10.9 billion in sales by 2014.

Maximising on this growth might not come as second nature. Malaysia has a substantially higher bandwidth cost compared to other regional competitors, a large detriment to nurturing a budding DC industry. At RM96 to RM256 megabits per second per month, bandwidth accounts for 30 per cent of monthly operating costs in the sector, twice the rate as Singapore and three times that of Hong Kong. However, rising costs associated with real estate in Singapore and Hong Kong will give other regional players an opportunity to break into the market thanks to considerably more cost-effective infrastructure and labour costs.

Applying benchmarking across the board and creating high value-added services could help promote the sector abroad, including the starlets of the local industry.

Expanding by 30 to 40 per cent globally per year, alternative energy naturally seems poised to draw added government attention. Indeed, Malaysia has a formidable electrical and electronics (E&E) base from which to develop a green technology supply chain. The E&E industry has experienced a 12.8 per cent growth rate per year thanks to private sector investments, which have continued at an unbroken pace the first three months of this year, according to a report in *The Sun* newspaper.

To help encourage the shift towards green technology, the Ministry of Energy, Green Technology and Water (MEGTW) has set goals for at least 50 per cent of the goods purchased by the public sector to carry an eco-friendly label by 2020.