

# The Economic Contributions of the Services Sector in Perak

## • What is the services sector?

- What is its contribution to Perak’s economy and the trends that we can observe?
- What should be Perak’s strategy for improving productivity in the services sector?

In today’s competitive and dynamic environment, the services sector has become one of the key drivers of global economic development. The services sector or third sector of the economy does not produce goods but provides services to users. In the Malaysian GDP, the services sector has been divided into five main sub-sectors:

- Utilities, Transportation and Storage, Information and Communication;
- Wholesale and Retail Trade, Food & Beverage and Accommodation;
- Finance and Insurance, Real Estate and Business Services;
- Government Services
- Other Services

The total services sector contribution to Malaysia’s GDP in 2014 was RM541.2 billion. Selangor and WP Kuala Lumpur were the major contributors with a combined share of 50%, as shown in *Figure 1*. Johor comes third with a contribution 8.2%, followed by Perak, Pulau Pinang and Sarawak which contributed 6.1 % each.

At the state level the services sector makes up more than 50% of the economic activity in 9 states (illustrated in *Figure 2*). This reflect the dominance of the services sector’s share of economic activity at the state level. WP Kuala Lumpur registered the highest percentage of services contribution to GDP at 88.5%, followed by WP Labuan (72.9%). Perak’s contribution was 60%, slightly higher than Selangor’s.

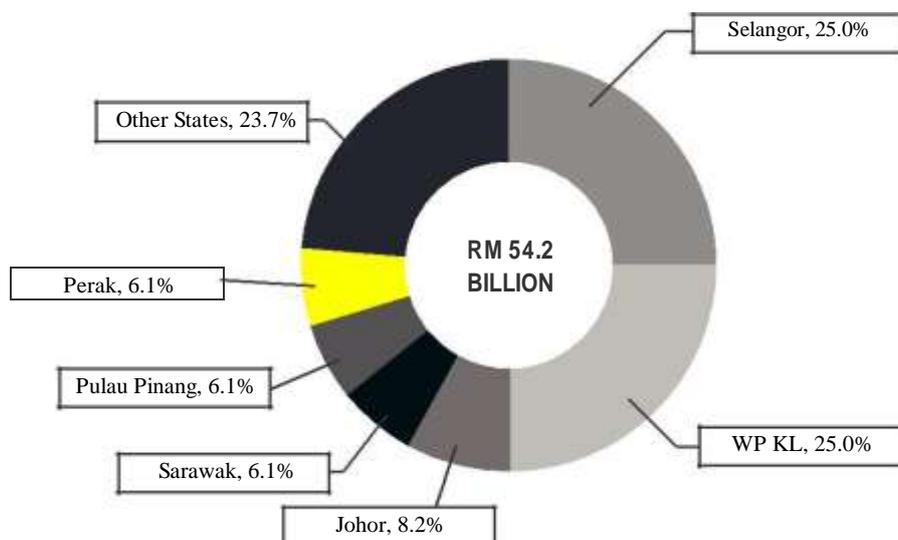


Figure 1: Percentage Share of Services Sector by State, 2014

Source: Department of Statistics, Malaysia

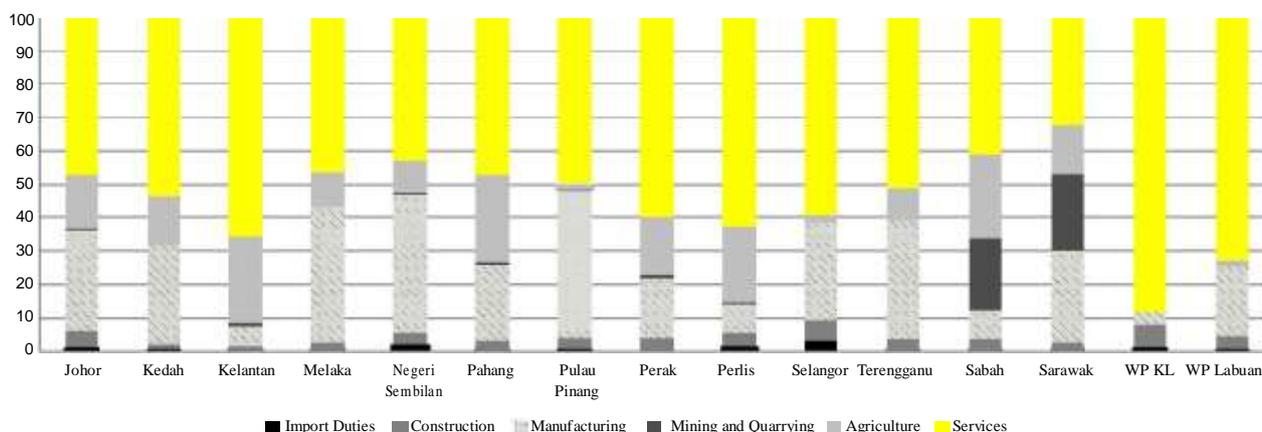


Figure 2: Percentage Share of Economic Activity by State, 2014  
Source: Department of Statistics, Malaysia

Figure 3 on page 7 compares the sub-sectors of Malaysia and Perak, and shows that the highest contribution of GDP in Malaysia for the services sector came from **Wholesale and Retail Trade, Accommodation and Restaurants** followed by Utilities, Transport, Storage and Communication, while Finance and Insurance, Real Estate and Business Services ranked third, followed by Other Services and lastly, Government Services.

The data on sub-sectors in Perak show different pattern. The major contribution in Perak came from **Utilities, Transport, Storage and Communication** (18.4%). This is partly due to the operation of the Manjung Coal Fired Power Plant, which supports economic activities in the state. The economic effect of this power plant spilled over into other sectors. The second largest contributor towards the Perak services sector was Wholesale and Retail Trade, Accommodation and Restaurants (15.2%), followed by Government Services (11.6%), Finance and Insurance (8.9%), and Other Services (5.7%).

In order to further enhance the services sector, Perak will benefit in the long run if it focuses on increasing the level of contribution of other components of its services sector to make it more vibrant and versatile.

The services sector is significant to the State because of its contribution to employment. Data from the Economic Census 2010 found that 24,274

establishments in the services sector operating in Perak, excluding Distributive Trade (Wholesale, Retail and Motor Vehicle activities), contributed a total of RM8.4 billion in terms of revenue and employed 106,300 people.

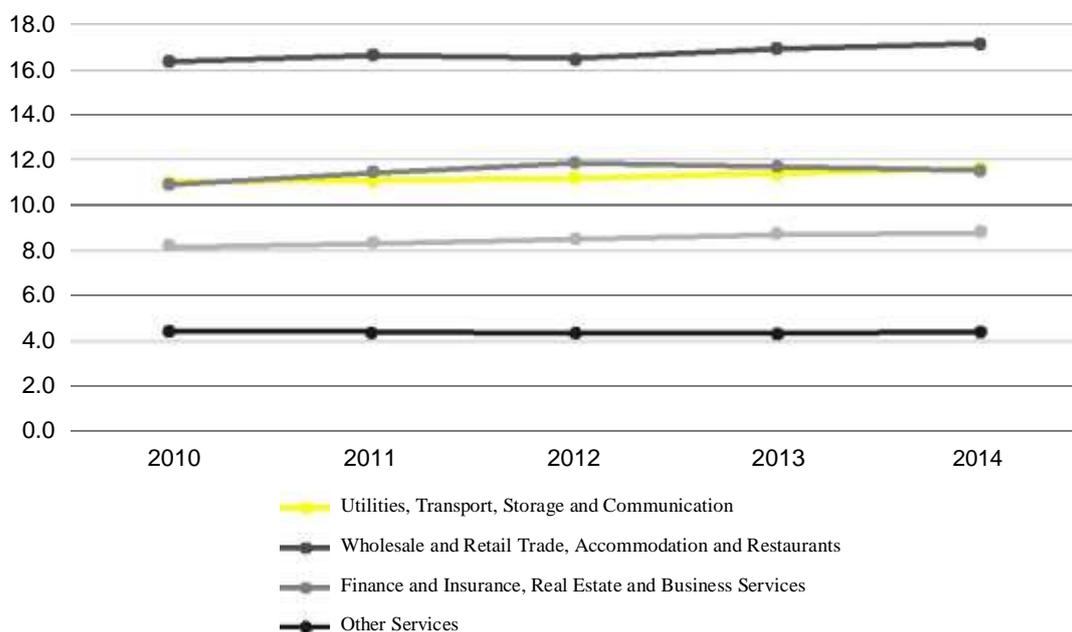
## THE WAY FORWARD

The services sector is expected to lead Perak's economic growth and to contribute 65.0 per cent to the state's GDP by 2020 (2014: 59.8%). Therefore, it is important for Perak to accelerate growth of the services sector as it contributes to job creation in the state.

The following are the recommendations for the state of Perak:

1. The Perak government needs to establish and strengthen public-private partnerships in order to increase the quality of infrastructure, accommodation, transportation and other ancillary services related to the tourism sub sector. In most developed economies it is the financial sector that takes the lead but Perak has a different dynamic and should leverage on its endowment, which is minerals and natural resources.
2. In strengthening the services sector, Perak must aggressively promote and fully utilize its conspicuous natural assets – limestone hills, caves and waterfalls - as an opportunity to turn Perak into an 'iconic adventure' tourist destination. This

Malaysia



Perak

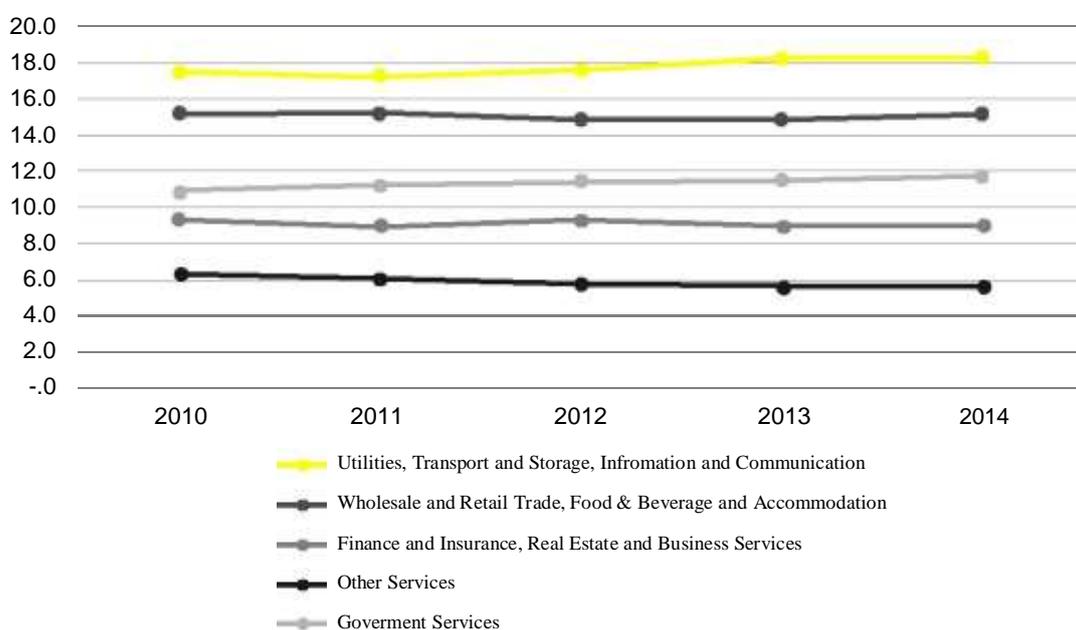


Figure 3: Services - Percentage Share by Type of Activity, 2010-2014

will boost the services sector as well as promote growth in other related sectors.

3. Establish Service Business Networks (SBN) in the State. The SBN will act as a focal point to assist service enterprises, especially Small and Medium

Enterprises (SMEs), which are not yet equipped to compete on a global scale. Initiatives to the build capacity of SMEs in the services sector will enable them to reap the full benefit of liberalisation and regional integration. Actions must be taken to enable SMEs to create an export-oriented services sector.

4. The Perak government needs to set up an advisory and working committee for the services industries to monitor and appraise the development of the services sector in the state. This will allow Perak to anticipate future opportunities in the services sector and to coordinate existing resources and arrange them to match available opportunities.

