



Assessment of the service sector's performance in Malaysia during the period 2020-2023

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Received :13/08/2024

Accepted :29/11/2024

Published :01/01/2025

Abstract:

This study examines the performance of Malaysia's services sector during the period 2020-2023, focusing on subsector analysis in order to clarify the sector's role in the Malaysian economy and analyse the different responses of sub-sectors to external shocks and varying growth paths. The study employs a descriptive analytical approach using quarterly secondary data from the OpenDOSM database. The results showed that Malaysia's service sector is a key engine of economic growth, significantly contributing to GDP (59%). The study also reveals that despite significant COVID-19 impacts, the services sector demonstrated remarkable resilience, with gradual recovery and positive growth across all subsectors post-pandemic. However, performance varied significantly among subsectors, with ICT showing consistent growth, while sectors like Wholesale & Retail Trade and Recreation exhibited high volatility. The analysis identifies key growth drivers including government policies, consumer confidence, pent-up demand, and technological advancements.

Key words: service sector; subsectors; external shocks; Malaysia.

Jel Classification Codes : L80, E32, O53.

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Introduction:

The Asian service sector is a dynamic and rapidly growing force in the global economy. Fuelled by rising middle-class populations, increasing urbanization, and technological advancements.

The services sector in Malaysia is a dynamic and vital engine of economic growth, contributing significantly to the country's GDP and employment. Comprising a wide range of industries, including healthcare, education, wholesale and retail trade, transport and ICT..., it reflects Malaysia's growing economic sophistication and transition towards a knowledge-based economy. The sector's prominence is underscored by its consistent growth, with services accounting for over 59% of Malaysia's GDP in 2023. This dominance is driven by several factors, including the country's strategic location as a regional hub for trade and investment, a burgeoning middle class with rising disposable incomes, and a government actively promoting the growth of services industries. However, the sector is not without its challenges. The COVID-19 pandemic significantly impacted its performance, leading to contractions in revenue and employment across various subsectors. While the sector has exhibited resilience and a gradual recovery, ongoing economic uncertainties, global economic fluctuations, and the need to adapt to technological advancements continue to pose challenges. Despite these hurdles, the Malaysian services sector is poised for continued growth, fueled by a growing demand for services, a thriving entrepreneurial ecosystem, and a government committed to fostering a conducive environment for the sector's development.

Statement of problem

The Malaysian service sector has become a dominant contributor to the country's economy, accounting for a significant share of GDP and employment. However, the performance of the various subsectors within the service industry has been uneven, with differing responses to external shocks and varying growth trajectories. Understanding the factors influencing the productivity and performance of the Malaysian service sector is crucial for policymakers and industry stakeholders to devise targeted strategies for sustainable growth. This study aims to address the following main problem:

How did Malaysia's service sector perform during the period 2020-2023?

Research questions: the following research questions are the focus of this study:

- To what extent has the Malaysian service sector contributed to the country's economy?
- How did the service sub sectors perform with various external shocks?

Research Hypothesis: the following hypotheses serve as a guide for the study:

- The Malaysian service sector is a crucial driver of economic growth.
- The service sub-sector in Malaysia has exhibited a diverse and dynamic performance across its various subsectors, with differing responses to external shocks and varying growth trajectories.

Research Objective: the purpose of this study is to:

- To elucidate the role of the services sector in the Malaysian economy.
- To conduct an analysis of the performance of different subsectors within the Malaysian service sector.
- To assess the effect of the COVID-19 pandemic on each subsector's performance.
- To provide recommendations for policymakers and businesses on how to enhance the performance and resilience of the Malaysian services sector.

Significance of study

This research enhances the current understanding of Malaysia's services sector by offering an in-depth examination of its diverse subsectors' performance. The findings offer valuable insights for policymakers, businesses, and researchers seeking to understand the dynamics of the sector and formulate effective strategies for its future growth. Moreover, by illuminating the effects of global disruptions such as the COVID-19 pandemic on service industries, this work underscores

the critical importance of building resilience and fostering adaptability to navigate future economic uncertainties. The insights gleaned from this analysis contribute significantly to the strategic planning and policy formulation processes aimed at strengthening Malaysia's service-based economy in an ever-evolving global landscape.

1. Research methodology

This study adopts a descriptive analytical approach, to provide a comprehensive assessment of the performance of the services sector in Malaysia by focused on the analysis various service subsectors. This study relies on secondary data, sourced from the OpenDOSM database. The data is quarterly and covers the period from Q1-2020 to Q4-2023.

2. Literature review

(Sauian et al, 2011); (Majumdar & Tripathy, 2018), focused on understanding the performance of the service sector and ways to measure it. These studies provided insights into the factors affecting the productivity and performance of the service sector. The research highlighted the importance of considering various elements, such as industry culture, availability of skilled workers, and access to venture capital, in understanding service sector performance. Additionally, the studies emphasized the need for developing specialized measurement methodologies to better assess the nuances of the service industry, as the traditional approaches may not fully capture its unique characteristics.

(Cuadrado-Roura, 2016); (Das & Raut, 2014), explored the pivotal role of the service sector in the process of industrialization and economic development. They emphasized the growing importance of the service sector, particularly in modern and post-industrial economies, and the need for greater research efforts to understand its regional and urban aspects. The studies also examined the benefits of a thriving service sector, such as its ability to employ educated labor and reduce pressure on natural resources, which can be crucial for economic development.

(Kamaruddin & Shamsudin, 2021), provide an overview of the service sector in the Malaysian economy, with a particular focus on the role and challenges faced by small and medium-sized enterprises (SMEs) in the sector. They found that the service sector is a rapidly growing component of Malaysia's economy, contributing significantly to GDP and employment. They also highlighted the government's efforts to promote and liberalize certain service industries to further increase the sector's contribution to the economy. (Shingal, 2022), examined the significant impact of the COVID-19 pandemic on the services trade and investment in the Asian region. The results showed a substantial decline in commercial services exports and imports during the pandemic year, with considerable variation across countries and sectors. Additionally, the announced greenfield investment in services also fell sharply, with the intra-regional decline being more severe. The studies further found that the stringency of containment measures imposed to address the pandemic may have substantially reduced services exports in the region.

(James et al, 2023), examined the drivers of rapid growth in Uganda's service sector using an econometric approach. The results showed that the past level of service sector performance, human capital, foreign direct investment, and gross national expenditure are significant drivers of service sector growth in both the short and long run. (Maruszewska & Strojek-Filus, 2020), investigated the challenges related to research and development (R&D) activities in the service sector. The findings revealed that R&D expenditure is often underestimated or unrecognized in the financial reports of service sector enterprises. Furthermore, the study highlighted a difference in the understanding of the R&D concept between economists and engineers, indicating the need for a substantial change in the definition of R&D to facilitate a wider adoption of R&D practices by service sector companies.

3. Structural composition of Malaysia's GDP

Malaysia's GDP is structurally diverse, with significant contributions from both services and manufacturing sectors. Services, encompassing areas like finance, tourism, and trade, hold the largest share, reflecting the country's growing economic sophistication. Manufacturing, particularly in electronics and oil & gas, plays a crucial role, contributing a substantial portion to GDP and exports. Agriculture, while historically significant, now holds a smaller share due to the country's shift towards a more industrialized economy. This balanced composition, with strong contributions from services and manufacturing, makes Malaysia's GDP relatively robust and resilient to economic fluctuations. Table 1 shows data on Malaysia's GDP composition from 2022 to 2024.

Table 1. Malaysia's GDP by sector, 2022-2024

Sector	Share %	Change %		
	2023	2022	2023 (Forecast)	2024 (Approximate)
Service	59.3	10.9	5.5	5.6
Manufacturing	23.5	8.1	1.4	4.2
Agriculture	6.3	0.1	0.6	1.2
Mining	6.1	2.6	-0.8	2.7
Construction	3.6	5.0	6.3	6.8
GDP %	100.0	8.7	~4.0	4.0-5.0

Source: (Ministry Of Finance, 2023, p. 66)

The service sector emerges as the dominant contributor to Malaysia's economy, accounting for 59.3% of GDP in 2023. This sector has demonstrated consistent growth, with an estimated increase of 5.5% in 2023 and a projected growth of 5.6% in 2024. The sustained expansion of the service sector underscores its pivotal role in driving Malaysia's economic growth and suggests a continuing shift towards a service-oriented economy. By putting laws and incentives in place targeted at raising the productivity of the services sector, the Malaysian government is encouraging the sector's ongoing expansion (MITI, 2023, p. 4).

Manufacturing represents the second-largest sector, comprising 23.5% of GDP in 2023. However, it experienced a notable deceleration in growth, from 8.1% in 2022 to an estimated 1.4% in 2023. The forecast for 2024 indicates a recovery, with projected growth of 4.2%. This fluctuation reflect challenges faced by the manufacturing sector, possibly due to global economic uncertainties or supply chain disruptions, with an anticipated improvement in conditions for 2024.

The agricultural sector, while contributing a smaller share of 6.3% to GDP, shows a gradual improvement in growth rates. From a minimal 0.1% growth in 2022, it is estimated to have grown by 0.6% in 2023, with a forecast of 1.2% growth in 2024. This trend suggests a slow but steady recovery in the agricultural sector, which influenced by factors such as climate conditions or agricultural policies.

The mining sector, contributing 6.1% to GDP, displays volatility in its growth pattern. After a 2.6% growth in 2022, it experienced a contraction of 0.8% in 2023. However, a significant rebound is projected for 2024 with 2.7% growth. This fluctuation attributed to global commodity price changes and shifts in resource extraction activities. The construction sector, while having the smallest share at 3.6% of GDP, exhibits the most robust growth trajectory. It maintained strong growth of 5.0% in 2022, accelerated to an estimated 6.3% in 2023, and is forecast to further increase to 6.8% in 2024. This consistent upward trend in construction indicate increased infrastructure development and real estate activity in Malaysia.

Overall, Malaysia's GDP growth rate is estimated at approximately 4.0% for 2023, with a forecast range of 4.0-5.0% for 2024. This represents a moderation from the 8.7% growth observed in 2022; Growth will be driven mainly by resilient domestic expenditure, with

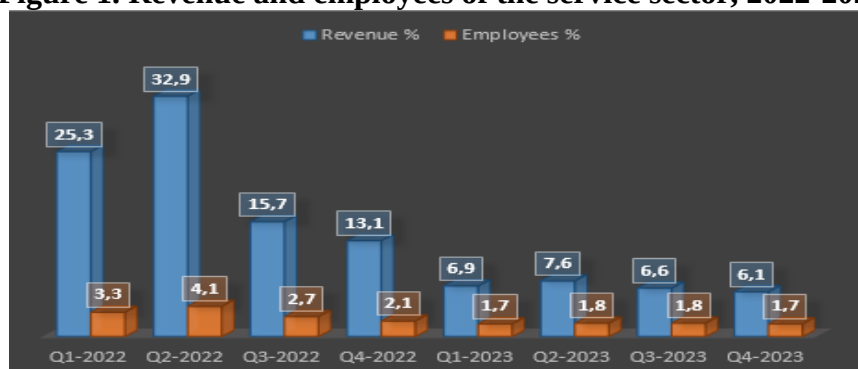
additional support emanating from the expected recovery in exports. Continued employment and wage growth will remain supportive of household spending (Bank Negara Malaysia, 2024, pp. 64-65). Tourist arrivals and spending are expected to improve further. Investment activity would be driven growth and targeted Government assistance. The projected growth for 2024 suggests a stabilization of economic expansion, with the service and construction sectors potentially serving as key drivers of this growth.

The analysis reveals a diverse economic structure in Malaysia, with services playing a predominant role. The varying growth rates across sectors highlight the complex dynamics at play in the country's economy, influenced by both domestic and global factors. The overall growth trajectory, while moderating from 2022, remains positive, indicating resilience in Malaysia's economic performance.

4. Service Sector compositions

Malaysia's GDP is derived primarily from the services sector. In addition, it is the area in which households spend the greatest amount of money on education, health, transportation, food and drink. Policymakers therefore closely monitor its performance.

Figure 1. Revenue and employees of the service sector, 2022-2023



Source: (OpenDOSM, 2024)

The data provided on the figure 1, offers insights into the year-over-year (YoY) changes in revenue and employee numbers within Malaysia's service sector from Q1 2022 to Q4 2023. This information allows for a detailed analysis of the sector's performance and employment trends over this period.

In terms of revenue, the service sector exhibited substantial growth in 2022, particularly in the first half of the year. Q1 2022 saw a 25.3% YoY increase, followed by an even more robust 32.9% growth in Q2. This exceptional performance attributed to a strong post-pandemic recovery as restrictions eased and economic activity rebounded. However, the latter half of 2022 witnessed a moderation in growth rates, with Q3 and Q4 showing 15.7% and 13.1% increases respectively. While still positive, this deceleration suggests a normalization of growth as the initial recovery momentum subsided. The recovery gathered pace following the full upliftment of domestic containment measures and reopening of international borders in April 2022. This was also supported by policy measures such as accommodative monetary policy, cash transfers and retirement fund withdrawals. The increase in domestic spending led to the improvement in high-touch services activities (e.g., retail, dining out and recreational activities) (Bank Negara Malaysia, 2023, p. 15).

The trend of moderating growth continued into 2023, with revenue increases settling into a more stable pattern. Q1 2023 recorded a 6.9% YoY growth, followed by 7.6%, 6.6%, and 6.1% in the subsequent quarters. This consistent performance, albeit at lower levels compared to 2022, indicates a stabilization of the service sector's revenue growth. The sustained positive growth throughout 2023 suggests ongoing economic resilience and consumer demand for services.

Regarding employment, the data reveals a different pattern. In 2022, employment growth was positive but more subdued compared to revenue growth. Q1 2022 saw a 3.3% YoY increase in employees, peaking at 4.1% in Q2, before moderating to 2.7% and 2.1% in Q3 and Q4 respectively. This trend suggests that while businesses were expanding, they have been cautious about increasing their workforce at the same rate as their revenue growth. The employment growth further moderated in 2023, stabilizing around 1.7-1.8% YoY across all quarters. This consistent but lower growth rate compared to 2022 indicate several factors: businesses focusing on productivity improvements, a potential skills gap in the labour market, or a cautious approach to hiring amid economic uncertainties.

An interesting observation is the disparity between revenue and employment growth rates, particularly in 2022. While revenue growth was in double digits, employment growth remained in single digits. This divergence could suggest increased productivity within the service sector, with businesses able to generate higher revenues without proportional increases in staff numbers. It also reflect the adoption of technologies or processes that enhance efficiency.

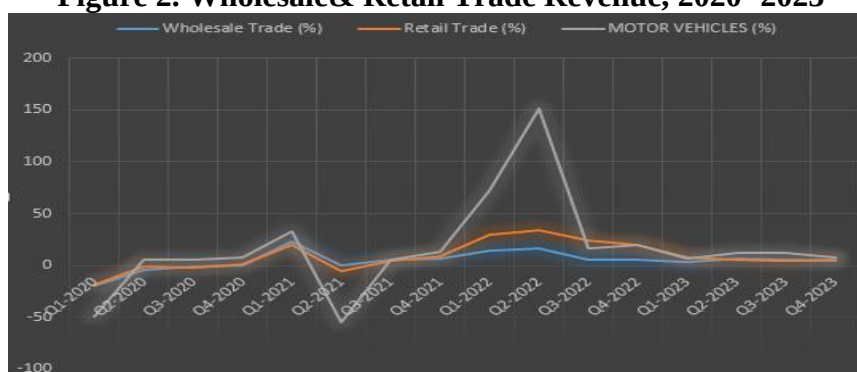
In 2023, although the gap between revenue and employment growth rates narrowed, revenue growth still outpaced employment growth. This continued trend reinforces the notion of ongoing productivity gains or structural changes within the service sector.

The analysis paints a picture of a service sector that experienced robust growth post-pandemic, followed by a period of normalization and stabilization. The consistent positive growth in both revenue and employment throughout 2023, even at lower rates, suggests a resilient sector adapting to changing economic conditions. The persistent gap between revenue and employment growth rates warrants further investigation into factors such as technological adoption, changing business models, or shifts in the nature of service delivery in Malaysia's economy.

4.1 Wholesale& Retail Trade

The figure 2 demonstrate Wholesale & Retail Trade Revenue in Malaysia from Q1 2020 to Q4 2023, we can observe several significant trends and patterns across the different subsectors.

Figure 2. Wholesale& Retail Trade Revenue, 2020- 2023



Source: prepared by the author based on: (OpenDOSM, 2024)

The COVID-19 pandemic in 2020 had a substantial impact on all three sectors. In Q1 2020, there was a sharp decline across the board, with Motor Vehicles experiencing the most severe contraction at -48.7% year-over-year (YoY). Wholesale and Retail Trade also saw significant declines of -19.4% and -18.9%, respectively. This uniform downturn attributed to the implementation of lockdown measures and reduced consumer spending due to economic uncertainty. However, the recovery trajectory differed among the sectors. Motor Vehicles demonstrated remarkable resilience, rebounding quickly to positive growth by Q2 2020 (6.1% YoY) and maintaining this momentum through Q4 2020. In contrast, Wholesale and Retail Trade took longer to recover, only returning to positive growth in Q4 2020.

The year 2021 witnessed volatile performance across all sectors. Q1 2021 saw extraordinary YoY growth rates (Wholesale Trade: 23.2%, Retail Trade: 19.8%, Motor Vehicles: 33.5%), largely due to the low base effect from the previous year's downturn. However, Q2 2021

experienced a sharp reversal, particularly in the Motor Vehicles sector, which contracted by 54.8% YoY. This fluctuation attributed to supply chain disruptions and varying degrees of movement restrictions.

The first half of 2022 had the most notable increase, particularly in the Motor Vehicles sector. In Q2 2022, Motor Vehicles recorded a dramatically growth of 151.8% YoY, while Retail Trade and Wholesale Trade also posted strong figures of 33.9% and 16.5%, respectively. This surge explained by pent-up demand, the government's extension of the vehicle registration deadline to 31 March 2023 for buyers with confirmed bookings made before 30 June 2022, benefiting from sales tax exemptions (MAA, 2022, p. 1).

From Q3 2022 onwards, growth rates across all sectors began to normalize, settling into more modest but consistent positive territory. By Q4 2023, growth rates had converged to a narrower range (Wholesale Trade: 4.9%, Retail Trade: 5.1%, Motor Vehicles: 7.8%), due to a resilient domestic economy and a very much stable socio-political environment (Malaysian Automotive Association, 2023).

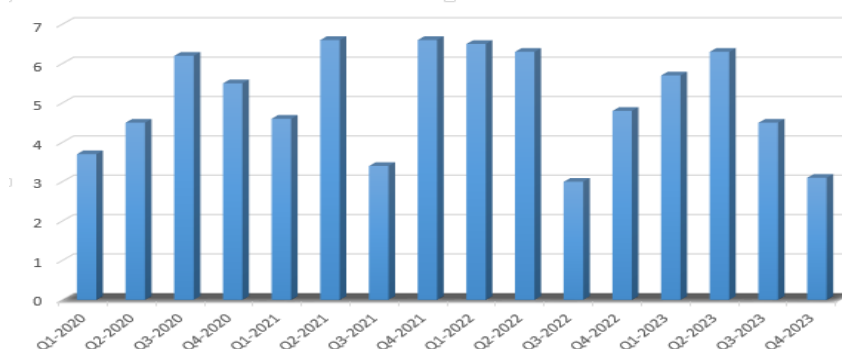
The Motor Vehicles sector exhibited the most volatility throughout the period of study, exhibiting both the sharpest losses and the most spectacular recoveries. This volatility attributed to factors such as changes in consumer preferences, supply chain issues specific to the automotive industry, and the sector's sensitivity to economic conditions and policy changes.

The analysis reveals a complex picture of Malaysia's Wholesale & Retail Trade Revenue from 2020 to 2023, characterized by initial pandemic-induced shocks, followed by uneven recovery patterns and eventual stabilization. The varying responses of different sectors to economic challenges underscore the importance of sector-specific policies and the need for resilient supply chains in the face of global disruptions.

4.2 Information, Technology & Communication Revenue

The (ICT) sector is one of the few that has experienced significant post-pandemic growth. ICT is expected to increase from 23.2% of Malaysia's GDP in 2021 to 25.5% by 2025. In Malaysia, both the public and private sectors are embracing a digital revolution that will affect the entire nation. A key element in guaranteeing Malaysia's place in the future global economy will be the digitization of operations in all major industrial sectors (ITA, 2024). The data presented for Information, Technology & Communication Revenue in Malaysia from Q1 2020 to Q4 2023 reveals an intriguing pattern of growth and fluctuation in this critical sector (see Fig.3).

Figure 3. ICT Revenue, 2020- 2023



Source: prepared by the author based on: (OpenDOSM, 2024)

Throughout the period under study, the Information, Technology & Communication sector in Malaysia demonstrated consistent positive year-over-year (YoY) growth, a notable achievement considering the global economic challenges during this timeframe. The sector's resilience is particularly evident in the early stages of the COVID-19 pandemic, where growth rates recorded successive increases during the first three quarters of 2020, achieving the highest rate of 6.2% during the third quarter of the year. The COVID-19 pandemic and its associated Movement

Control Order (MCO) spurred a rapid increase in internet access and usage in Malaysia. Businesses, particularly MSMEs, adopted digitalization to maintain operations during the lockdown. People turned to digital platforms and online payments for entertainment, as mobility restrictions were in place. Numerous sectors relied on digital services, stimulating economic activity despite the shutdown (MITI, 2023, p. 18).

The year 2021 saw continued growth, with a notable peak of 6.6% YoY in both Q2 and Q4. This sustained expansion attributed to ongoing digital transformation initiatives, in both the private and public sectors, as well as increased consumer adoption of digital services. The consistency of growth during this period indicates a robust demand for information and communication technologies, possibly driven by the ongoing adaptation to post-pandemic realities.

In 2022, the sector maintained its growth trajectory, even with some fluctuations. Q1 and Q2 showed strong performance at 6.5% and 6.3% YoY growth, respectively. However, there was a noticeable dip to 3% in Q3, followed by a recovery to 4.8% in Q4. This temporary slowdown indicative of market saturation in certain segments or could reflect global supply chain issues affecting the technology industry.

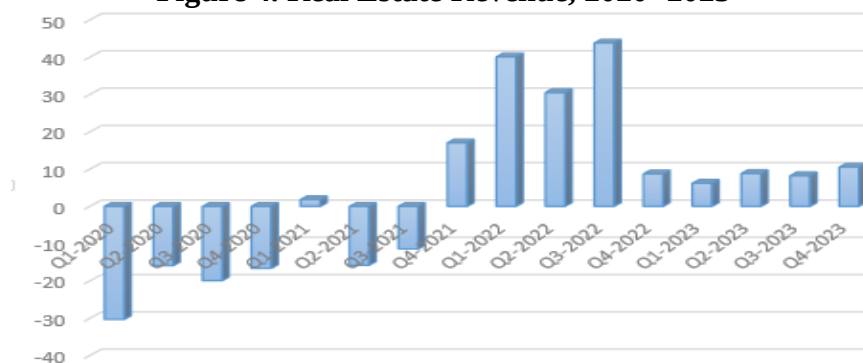
The 2023 year began strongly with 5.7% YoY growth in Q1, followed by a slight increase to 6.3% in Q2. However, the latter half of the year saw a gradual deceleration, with growth rates of 4.5% in Q3 and 3.1% in Q4. This trend suggest several possibilities: a normalization of growth rates after the initial post-pandemic surge, increased market competition, or perhaps a shift in investment patterns within the sector.

It is noteworthy that despite some quarterly fluctuations, the sector maintained positive growth throughout the entire period, demonstrating its fundamental strength and importance to the Malaysian economy. The consistent positive performance also aligns with global trends of increasing digitalization and the growing importance of the information and communication technology sector in driving economic growth.

4.3 Real Estate

The real estate sector in Malaysia has experienced significant fluctuations in revenue from Q1 2020 to Q4 2023. These fluctuations are reflective of broader economic conditions, influenced by external factors such as the COVID-19 pandemic, government interventions, and market dynamics.

Figure 4. Real Estate Revenue, 2020- 2023



Source: prepared by the author based on: (OpenDOSM, 2024)

In 2020, the real estate sector faced substantial challenges, primarily due to the global COVID-19 pandemic. The YOY revenue figures indicate a stark decline across all quarters. The first quarter of 2020 saw the most severe decline, with revenue plummeting by 30.3% compared to the same period in the previous year. This sharp downturn was attributable to the onset of the COVID-19 pandemic and subsequent lockdown measures, which dramatically impacted economic activities across various sectors, including real estate.

The subsequent quarters of 2020 continued to exhibit negative growth, even at a slightly moderated pace. Q2, Q3, and Q4 of 2020 recorded YoY declines of 15.9%, 19.9%, and 16.6%, respectively. This persistent contraction suggests a prolonged impact of the pandemic on the real estate market, potentially due to factors such as reduced consumer confidence, economic uncertainty, and restrictions on property viewings and transactions.

The year 2021 marked the beginning of a gradual recovery for the sector. Q1 2021 saw a modest positive growth of 1.8%, indicating the first signs of market stabilization. However, Q2 and Q3 of 2021 reverted to negative territory with declines of 15.8% and 11.4%, respectively. This fluctuation attributed to subsequent waves of the pandemic and varying degrees of movement restrictions. Interestingly, Q4 2021 demonstrated a robust recovery with a 17% YoY increase, driven by pent-up demand and adaptations to the new economic environment.

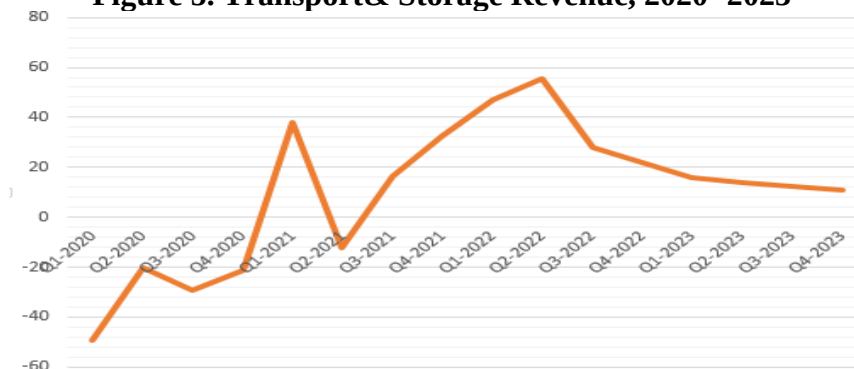
The year 2022 witnessed a remarkable turnaround for the real estate sector in Malaysia. Q1, Q2, and Q3 of 2022 recorded substantial YoY growth rates of 40.1%, 30.5%, and 43.8%, respectively. This pronounced recovery attributed to factors such as the easing of pandemic-related restrictions, government stimulus measures, and a surge in property investments. The fourth quarter of 2022 saw a more modest growth of 8.7%, which, while positive, attributed to the improvement in both segments. Since property ownership became more expensive due to rising interest rates and material costs, the real estate market improved, especially in the leasing and renting of houses. This made renting a better option (MOF, 2022, p. 85).

In 2023, the real estate sector appears to have stabilized, showing consistent yet moderate growth. The first quarter of 2023 recorded a 6.2% increase in revenue, continuing the positive trend from 2022. This growth trajectory was maintained through Q2 and Q3, with increases of 8.8% and 8.2%, respectively. By Q4, the sector demonstrated a steady rise with a 10.5% YOY increase. This period of sustained growth reflects a more stable economic environment, with ongoing recovery from the pandemic's impacts and a return to more predictable market conditions.

4.4 Transport and Storage

Malaysia's transport sector is vital to the country's socio-economic development. The Transport and Storage Revenue data for Malaysia from Q1 2020 to Q4 2023 reveals significant fluctuations, reflecting the impact of the COVID-19 pandemic and subsequent recovery.

Figure 5. Transport& Storage Revenue, 2020- 2023



Source: prepared by the author based on: (OpenDOSM, 2024)

The sector experienced severe contraction in 2020, with Q1 showing the largest decline of -49.3% YOY, where Malaysia Airlines reported that it has canceled 4,000 flights on March 18, 2020. Lockdowns were being implemented in several other nations as well, which reduced the number of available international flights. In comparison to 2019, the total number of aircraft handled in Malaysia decreased by 61.10% in 2020. The Express Rail Link ceased operations in April 2020 as a result of low passenger volume after all flights were cancelled (Zailani, 2023, pp. 38-39).

A turnaround began in Q1 2021 with 38% growth, though volatility persisted. The year 2022 marked a period of robust expansion, peaking at 55.3% growth in Q2. This increase was caused

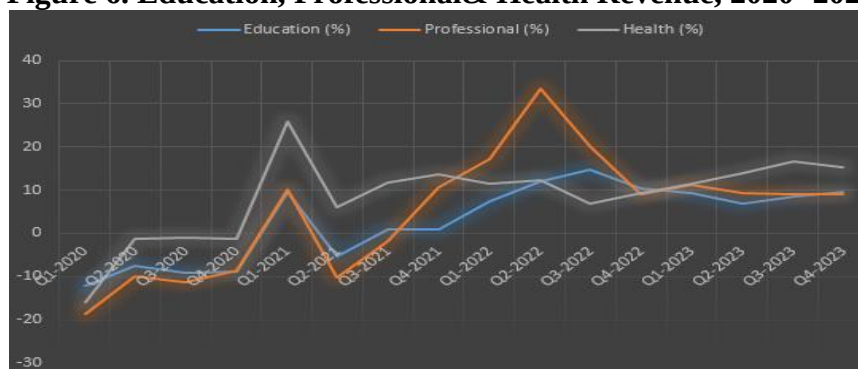
by the growing demand for road transportation, which came mostly from the FMCG (fast-moving consumer goods) industry, the industrial sector, and the automobile industry (Mordor Intelligence, 2023).

This strong performance gradually moderated throughout 2023, with growth rates declining from 15.8% in Q1 to 10.8% in Q4. The overall trend suggests initial pandemic-induced disruption, followed by a strong rebound and subsequent normalization. This pattern reflects the easing of restrictions, pent-up demand, and eventual stabilization of the sector post-pandemic. The recent deceleration in growth rates indicate a return to more sustainable levels or potential emerging challenges in the economic environment.

4.5 Education, Professional and Health Subsector

The figure 6 presents year-over-year (YOY) percentage changes in Education, Professional, and Health Revenue in Malaysia from Q1 2020 to Q4 2023, offering insights into these subsectors' performance during the COVID-19 pandemic and subsequent recovery period.

Figure 6. Education, Professional& Health Revenue, 2020- 2023



Source: prepared by the author based on: (OpenDOSM, 2024)

All three subsectors experienced significant contractions in 2020, with the Professional sector suffering the most severe decline (-18.5% in Q1 2020). The education sector had significant negative growth as well; the more than 40-week school closure during the pandemic crisis has caused a significant loss in educational advancement. It has been stated that around 40% of students are unable to engage in online classes because they do not have access to digital devices or the internet (Yun, 2023, p. 41). The Health sector, though affected, showed more resilience with smaller contractions, after the significant contraction it experienced in the first quarter of the year (-15.8%).

A notable turnaround occurred in Q1 2021, with all sectors rebounding strongly. The Health sector led this recovery with a remarkable 25.9% YOY growth, reflecting increased healthcare demand and spending during the pandemic. However, this initial recovery was followed by a temporary setback in Q2 2021, particularly in the Education and Professional sectors, suggesting ongoing volatility.

The latter half of 2021 and throughout 2022 marked a period of generally positive growth across all sectors, with some fluctuations. The Professional sector demonstrated particularly strong performance in Q2 2022 with a 33.4% YOY increase, possibly indicating pent-up demand for professional services as economic activities normalized. Education showed a steady upward trend from Q3 2021 onwards, peaking at 14.7% growth in Q3 2022. This reflect adaptations to remote learning and increased investments in educational technology.

The Health sector maintained relatively stable positive growth rates from Q3 2021 through 2023, with a notable uptick in the latter half of 2023, reaching a peak of 16.6% in Q3 of the year. This consistent growth indicate sustained demand for healthcare services and potential

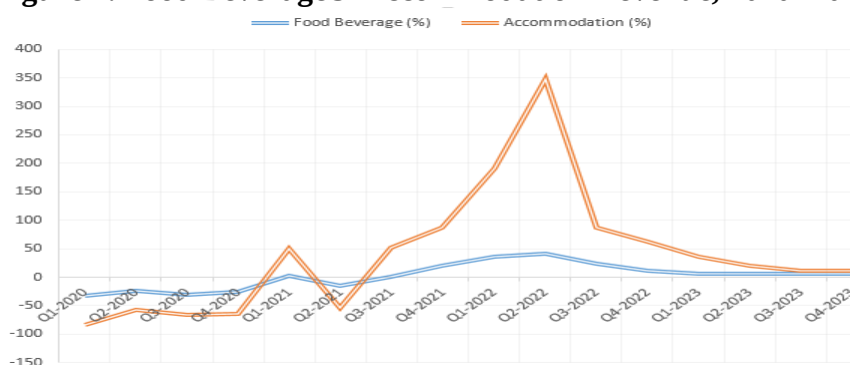
structural changes in the sector post-pandemic. As for the Education and Professional sectors showed positive but moderating growth rates in 2023, suggesting a stabilization phase.

This overall trend across the three sectors reflects the initial shock of the pandemic, followed by a recovery phase characterized by volatility and sector-specific dynamics, and finally a period of stabilization. The data underscores the resilience and adaptability of these crucial sectors in the face of unprecedented challenges, while also highlighting the varying impacts and recovery patterns across different areas of the economy.

4.6 Food beverage and accommodation

The figure 7 presents a comprehensive overview of the year-over-year (YoY) revenue changes in Malaysia's Food Beverage and Accommodation sectors from Q1 2020 to Q4 2023. This period encompasses the COVID-19 pandemic and its aftermath, providing valuable insights into the sectors' resilience and recovery patterns.

Figure 7. Food Beverage& Accommodation Revenue, 2020- 2023



Source: prepared by the author based on: (OpenDOSM, 2024)

In 2020, both sectors experienced significant declines, with Accommodation suffering more severe contractions than Food Beverage. The Accommodation sector saw its nadir in Q1 2020 with an 82.6% YoY decrease, while Food Beverage's worst performance was a 32.6% decline in the same quarter. This disparity reflects the more immediate and profound impact of travel restrictions on the hospitality industry. As the Malaysian economy witnessed a slowdown due to the Covid-19 pandemic, under movement control order (MCO). A large number of business owners, especially those working in the food and beverage sector, were forced to close their businesses (Zubir & et al, 2023, p. 138).

The recovery trajectory for both sectors began in 2021, albeit with some volatility. The Accommodation sector demonstrated more pronounced fluctuations, alternating between substantial growth (e.g., 86.4% in Q4 2021) and continued contraction (e.g., -53% in Q2 2021). This volatility reflects the sector's sensitivity to policy changes, such as the implementation and lifting of travel restrictions, as well as shifts in consumer confidence. In contrast, the Food Beverage sector showed a more gradual and stable recovery pattern despite the contraction recorded in Q4 of the year (14%), suggesting a gradual return of consumer spending on dining out as restrictions eased.

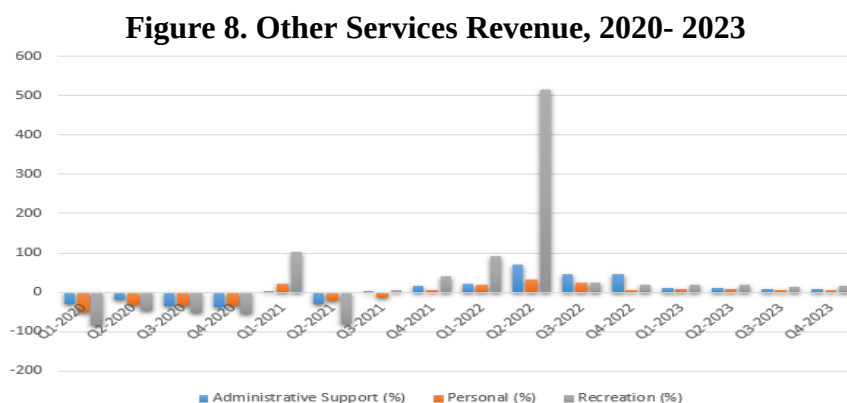
The year 2022 marked a turning point for both sectors, characterized by robust growth. The extraordinary growth rates in the Accommodation sector, peaking at 346.9% YoY in Q2 2022, indicate a significant rebound effect. This surge attributed to several factors: pent-up demand for travel and hospitality services, the lifting of most pandemic-related restrictions, and the implementation of government initiatives to stimulate domestic tourism. The Food Beverage sector also experienced strong growth during this period, albeit at more moderate levels, with a peak of 42% in Q2 2022.

By 2023, growth rates moderated significantly for both sectors, suggesting a normalization of market conditions. Accommodation growth rates declined from 36.7% in Q1 to 12.1% in Q3 and Q4, while Food Beverage maintained a steady growth rate between 5.9% and 7.1% throughout the year.

This analysis reveals the sectors' differing sensitivities to external shocks and their subsequent recovery patterns, underscoring the importance of adaptive strategies in the face of unprecedented challenges.

4.7 Other services

The data presented in the figure 8 provides insights into the year-over-year (YoY) revenue changes for Administrative Support, Personal, and Recreation sectors in Malaysia from Q1 2020 to Q4 2023.



Source: prepared by the author based on: (OpenDOSM, 2024)

The witnessed of 2020 marked a significant downturn across all three sectors, likely attributable to the global COVID-19 pandemic. The Recreation sector experienced the most severe impact, with a staggering 83.7% YoY decline in Q1 2020, followed by Personal services at -51.4% and Administrative Support at -28.1%. This trend of negative growth persisted throughout 2020, albeit with varying degrees of severity across quarters.

A notable recovery began in Q1 2021, with all sectors showing positive growth. The Recreation sector demonstrated a remarkable rebound with a 103.1% YoY increase, potentially indicating pent-up demand following prolonged restrictions. However, this recovery was short-lived, as Q2 2021 saw another sharp decline across all sectors, with Recreation again experiencing the most significant drop at -80.6%.

The latter half of 2021 and early 2022 marked the beginning of a more sustained recovery phase. By Q2 2022, all sectors exhibited substantial positive growth, with Recreation showing an extraordinary 515.5% YoY increase. This exceptional growth attributed to a combination of factors, including the easing of pandemic-related restrictions, government stimulus measures, and a return to normalcy in consumer behavior.

Throughout 2022, growth rates remained positive across all sectors, though the magnitude of growth began to moderate. The Administrative Support sector showed the most consistent strong performance during this period, with growth rates ranging from 22.7% to 69.6%. The year 2023 saw a continuation of positive growth across all sectors, albeit at more modest levels compared to the previous year. Growth rates stabilized in the range of 6-20% for all sectors, indicating a potential normalization of economic activities post-pandemic.

The analysis reflects the significant impact of the COVID-19 pandemic on these sectors in Malaysia, followed by a volatile recovery period. The Recreation sector demonstrated the highest volatility throughout, experiencing both the steepest declines and the most dramatic recoveries. Administrative Support showed the most consistent recovery from 2022 onwards, while the Personal sector exhibited more moderate fluctuations overall. This analysis suggests that while all sectors have returned to positive growth, the long-term effects of the pandemic and subsequent economic adjustments continue to influence their performance.

5. Interpretation of results

The performance of Malaysia's service sector from 2020 to 2023 demonstrates a compelling narrative of resilience, recovery, and adaptation in the face of unprecedented challenges. The sector's journey through this period reflects not only its economic significance but also its responsiveness to external shocks and policy interventions.

The study's findings on the Malaysian services sector resonate with previous research on both the global and regional economic landscapes. The study's observations of significant impact from the COVID-19 pandemic, followed by an uneven recovery, mirror global trends documented by Shingal (2022) in the Asian region. This global impact on service sectors, particularly trade and investment, is further echoed by James et al. (2023), who found similar effects on Uganda's service sector, where human capital and national expenditure contributed to growth, highlighting the interconnectedness of global economic forces.

The study also echoes the findings of Cuadrado-Roura (2016) and Das & Raut (2014), who emphasized the pivotal role of the service sector in economic development, particularly in modern and post-industrial economies. While the study focuses on Malaysia, the observed shift towards a service-oriented economy aligns with the global trend of economic diversification and the increasing importance of services in contributing to GDP and employment (Kamaruddin & Shamsudin, 2021). The sector's ability to adapt to the challenges posed by the COVID-19 pandemic, coupled with supportive government policies, has been crucial in navigating this turbulent period. However, the study also reveals some unique aspects of the Malaysian experience. The substantial growth in the ICT sector aligns with the global trend of digital transformation and the growing importance of technology in driving economic growth. However, the persistent gap between revenue and employment growth observed in the study highlights a need for further investigation into the specific dynamics of the Malaysian labor market and the implications of technological adoption (Maruszezowska & Strojek-Filus, 2020).

The study's findings on the real estate sector, particularly the fluctuation in revenue, underscore the sector's sensitivity to broader economic conditions, as highlighted by previous research. However, the study reveals the potential for a strong rebound in the sector, suggesting that targeted government interventions and a stable socio-political environment could foster sustained growth.

Conclusion

This study provides a comprehensive analysis of the Malaysian services sector's performance from Q1 2020 to Q4 2023, encompassing the COVID-19 pandemic and subsequent recovery. The analysis reveals a diverse and dynamic sector, with varying sub-sector responses to external shocks and distinct growth trajectories. The most important results can be summarized as follows:

- Despite the significant impact of the COVID-19 pandemic, the Malaysian services sector demonstrated remarkable resilience, exhibiting a gradual recovery and positive growth across all sub-sectors in the post-pandemic period.
- While the service sector as a whole demonstrates resilience, the study highlights significant variation in the performance of different sub-sectors, with some showing greater volatility and others exhibiting more sustained growth:
 - ICT sector exhibited consistent positive growth throughout the period, highlighting its crucial role in the digital transformation of the economy.
 - The Wholesale & Retail Trade sector, particularly the Motor Vehicles subsector, showed high volatility but strong recovery post-pandemic.
 - The Real Estate sector faced initial challenges but demonstrated a robust recovery by 2022.

- The Transport and Storage sector experienced severe contraction in 2020 but showed strong rebound in 2022.
- Education, Professional, and Health sectors showed resilience with the Health sector leading the recovery.
- Food, Beverage, and Accommodation sectors were heavily impacted initially but showed strong recovery by 2022.
- The analysis identifies key drivers of growth across different sub-sectors, including government policies, consumer confidence, pent-up demand, and technological advancements.

The results of the study corroborate the following hypothesis:

- The performance of the Malaysian services sector during the period 2020-2023 demonstrates its central role in the country's flexibility and economic recovery, as it represents approximately 59% of GDP in 2023, which confirms the pivotal role that the services sector plays in the Malaysian economy. **That supporting the first hypothesis.**
- Despite this overall positive trend of services sector, the analysis highlights notable disparities in the performance of different subsectors. The Recreation sector, for instance, continues to exhibit the most significant volatility, highlighting a dynamic response to both pandemic-related restrictions and government interventions. On the other hand, Administrative Support demonstrates a more consistent trajectory of growth, suggesting a stronger foundation for sustained expansion. **This is consistent with and confirms the validity of the second hypothesis.**

Based on the results of the study, the following suggestions can be made:

- Policymakers should develop targeted strategies for each sub-sector, taking into account their specific challenges, opportunities, and growth drivers.
- Investing in Information and Communication Technology (ICT) infrastructure and skills development is crucial to promote innovation and improve the sector's overall efficiency and competitiveness.
- Addressing the skills gap in the labor market is crucial for businesses to maximize productivity and sustain growth.
- Promoting domestic tourism and supporting local businesses will further stimulate the hospitality and retail sectors.
- Encouraging diversification within the service sector by supporting new and emerging sub-sectors will help mitigate risks and promote sustainable growth.

Study limitations

- The study focuses on the period from 2020 to 2023, which primarily captures the COVID-19 pandemic and immediate recovery period. This relatively short time frame may not fully represent long-term trends or cyclical patterns in the service sector.
- The study focuses solely on Malaysia without comparing its service sector performance to other countries in the region or globally. This limits the ability to contextualize Malaysia's performance in a broader economic landscape.

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