Economic role of national shipping in Malaysia

Abdullah Yusuff Basiron

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ECONOMIC ROLE OF NATIONAL SHIPPING
IN MALAYSIA

BY

ABDULLAH YUSUFF BASIRON

MALAYSIA

A dissertation submitted to the World Maritime University in partial fulfilment of the requirements for the award of the:

Degree of Master of Science

in

General Maritime Administration

Year of Graduation

1991
I certify that all material in this dissertation which is not my own work has been identified and that no material is included for which a degree has been previously conferred upon me.

The contents of this dissertation reflect my personal views and are not necessarily endorsed by the University.

30 October 1991

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PREFACE

Many developing countries have different objectives for the acquisition of a shipping fleet, and these objectives can either be economic or/and non-economic. To attain those objectives, these countries need to evaluate and adopt appropriate measures, which will help the growth and development of their shipping fleets and to enable these fleets to compete in the international arena of shipping for the attainment of those objectives.

The Malaysian shipping industry is still in its infancy stage, both in term of organizational as well as infrastructural point of view. Although Malaysia's maritime tradition dates back to the early Malacca Sultanate in the fifteenth century, locals however are not known to be ocean-going and it was only in the late 1960's that the maritime industry and in particular, the shipping industry, began to be given the necessary emphasis, attention nad support by the government.

This interest on the part of the government can be traced to the concern over the huge outflows of invisibles in the form of freight and insurance which made up a large portion of the current services account. As this outflows of invisibles grew worse from year to year, the attention of the government began to focus on the means to reduce this outflows, as well as, the realization of the fact that there was a need to have a viable and developed shipping fleet which could carry the nation's foreign trade and thus lessen the dependence of the country on foreign vessels.

Nevertheless, the present shipping industry, its
supportive activities and the size of the national fleet, due to institutional, organizational and infrastructural reasons, has not attained the growth and the development that would have made it a significant contributor to the country’s economy. It is therefore the objective of this paper to look at those aspects and the role of national shipping and its contribution to the national economy.
ACKNOWLEDGEMENT

I would like to express my appreciation and acknowledge the guidance and assistance of Professor Theodore Sampson and Dr. Bernhard Abrahamsson in preparing this thesis. I am also very grateful for all support given to me by my colleagues in the Ministry of Transport, Malaysia and colleagues at the University. I would also like to take this opportunity to thank the Government of Malaysia for sponsoring my studies here at the WMU.

Finally, all my gratitude and thanks to my family, for all the support, encouragement and sacrifices.
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</tbody>
</table>
CHAPTER 1. COUNTRY DESCRIPTION AND ECONOMIC CHARACTERISTICS OF MALAYSIA.

1.1 COUNTRY DESCRIPTION.

1.1.1 Malaysia is a nation comprising of 13 States in two separate geographical areas of Southeast Asia. Eleven of these are situated in Peninsular Malaysia (West Malaysia) whilst the remaining two States (Sabah and Sarawak) are in East Malaysia which is on the northeastern part of the island of Borneo. East and West Malaysia are 650 km apart and are separated by the South China Sea. Malaysia shares land border with Thailand to the north on the Peninsular and with the Republic of Indonesia and Brunei on the island of Borneo. Malaysia is separated from the island of Singapore by a narrow sea channel (Straits of Johore) at the southern tip of the Peninsular. Malaysia is a member of the Association of Southeast Asian Nations (ASEAN) which includes the Philippines, Thailand, Brunei, Indonesia and Singapore.

1.1.2 Malaysia with a population of 18 million people has a total land area of about 329,757 square km whereby Peninsular Malaysia accounts for 131,598 square km and East Malaysia, the remaining 198,159 square km. Although East Malaysia is the bigger of the two, it has only about 20% of the total population. The average growth rate of the population was 3.5% for the period 1985-1990 whilst the estimated infant mortality rate is 25 per thousand which is a declining trend due to better hospital facilities, cares and the eradication of diseases. Due to the fact that almost 80% of the country is covered with tropical rain forests,
mangrove swamps and both East and West Malaysia being quite mountainous has resulted in just over 20% of the country being used for cultivation and other commercial activities. Most of the population (two third) in West Malaysia can be found in the west coast (infact the most developed part of the country) which is separated from the east coast by the presence of a central mountain chain.

1.1.3 Malaysia has a coastline of 4,500 km and an exclusive economic zone of 138,700 square nautical miles. Most of the EEZ is located in the South China Sea and is a fairly rich fishing ground being depended upon by fisherman of the country, an important occupation. Geographically Malaysia is strategically located in the important east and west trade route, namely the Straits of Malacca which is considered to be one of the busiest seaways in the world. It is an accepted fact that the Straits have contributed and influenced the rapid development as well as the urbanisation of the west coast region in particular and Peninsular Malaysia in general. The territorial limits in the Straits are well delineated between Singapore, Indonesia and Malaysia where a traffic separation scheme is in operation.

1.2 ECONOMIC SETTING - AN OVERVIEW.

1.2.1 Prior to Malaysia’s independence and creation, Malaya than was totally dependent on two products namely rubber and tin which were export oriented as well as the principal revenue earner for the country. As a result of this dependence on the two products, the economy of the
country was vulnerable to the fluctuations in the prices of these two commodities whereby any change in the demand would result in an amplified effect on the economy of the country. It was with the realisation that the country could not afford to base its economy on only two commodities which caused the government to embark on a diversification programme which includes the palm oil industry, exploration of her rich timber resources, petroleum and petroleum based products. In addition, an industrialisation process for the country has been initiated through several long term strategic plans beginning right after the country's independence in 1957.

1.2.2 So it was with several of these economic plans and development policies that the country witnessed a period of rapid growth as well as structural transformation. The growth in gross domestic product (GDP) which was 6.5% in the 60's grew to 7.7% for the period 1971-1980. However there was a downturn for the period 1980-1988 where GDP’s growth was only 4% due to global economic downturn in the 1980’s. The per capita income of M$4,526 recorded in 1988 (US$1,703) was to be one of the highest in Asia. In 1970 the government implemented the New Economic Policy (NEP) which, as a part of the overall government policy, aims at eradicating poverty and restructuring the society to achieve a more equitable distribution of wealth among the many races in the country, thus ensuring long term political stability, development and economic progress. Table 1.1 reflects the structure of the economy.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PRIMARY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture, Forestry &amp; Fishing</td>
<td>30.8</td>
<td>27.7</td>
<td>22.8</td>
<td>20.3</td>
<td>21.0</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>6.3</td>
<td>4.6</td>
<td>10.0</td>
<td>10.1</td>
<td>11.0</td>
</tr>
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<td>SECONDARY</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Manufacturing</td>
<td>13.4</td>
<td>16.4</td>
<td>19.9</td>
<td>19.1</td>
<td>24.0</td>
</tr>
<tr>
<td>Construction</td>
<td>3.9</td>
<td>3.8</td>
<td>4.6</td>
<td>5.1</td>
<td>3.0</td>
</tr>
<tr>
<td>TERTIARY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services and Others</td>
<td>35.3</td>
<td>36.8</td>
<td>39.9</td>
<td>44.0</td>
<td>41.0</td>
</tr>
</tbody>
</table>

Source: Fifth Malaysia Plans, Malaysia, Government Printers, Kuala Lumpur.

1.2.3 From the above Table 1.1 it can clearly be seen that the agricultural sector has declined progressively from a share of 30.8% in 1970 to 21% in 1988. Due to the exceptional growth rate in the manufacturing sector and the emphasis that the government has given to the industrialisation programme of the country, it is further forecasted that the share of the agricultural sector would decline steadily over the next few years. The same table shows the rapid growth of the manufacturing sector which contributed 13.4% to the GDP in 1970 and 24% in 1988 respectively. Here, the industrialisation programme carried out over the years has resulted in the increase in the share of the tertiary and the service sector which saw its contribution rising from 35.3% in 1970 to 41% in 1988.

1.2.4 In the employment sector we can see a similar
pattern to that of sectoral development indicators. The manufacturing and service sectors reflected a positive growth whilst a decline was seen for the agricultural sector. See Table 1.2. It is important also to note that the service sector has become the major source of employment for the people accounting for 35.6% in 1985.

**TABLE 1.2 - EMPLOYMENT BY SECTORAL ORIGIN FOR THE PERIOD 1970-1990 (%).**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PRIMARY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture, Forestry &amp; Fishing</td>
<td>50.5</td>
<td>45.3</td>
<td>39.7</td>
<td>35.7</td>
<td>32.7</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>2.6</td>
<td>2.1</td>
<td>1.7</td>
<td>1.1</td>
<td>0.7</td>
</tr>
<tr>
<td>SECONDARY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>11.4</td>
<td>13.5</td>
<td>15.7</td>
<td>15.1</td>
<td>15.4</td>
</tr>
<tr>
<td>Construction</td>
<td>4.0</td>
<td>4.4</td>
<td>5.6</td>
<td>6.9</td>
<td>7.8</td>
</tr>
</tbody>
</table>

Source: Fifth Malaysia Plans, Malaysia, Government Printers, Kuala Lumpur.

1.3 FOREIGN TRADE.

1.3.1 Table 1.1 has shown how the share of the manufacturing sector to the GDP has increased since 1970's and this increase has resulted in the manufacturing sector becoming the number one source of revenue for the country. Table 1.3 below shows the main commodities exported by Malaysia for the period 1980 to 1990.
<table>
<thead>
<tr>
<th>YEAR</th>
<th>RUBBER</th>
<th>TIN</th>
<th>SAWN Logs</th>
<th>CRUDE PETROL'UM</th>
<th>MANUFACTURING</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>4618.0</td>
<td>2505.3</td>
<td>2616.2</td>
<td>6709.1</td>
<td>6106.6</td>
</tr>
<tr>
<td>1981</td>
<td>3713.1</td>
<td>2138.1</td>
<td>2472.8</td>
<td>6921.4</td>
<td>6410.8</td>
</tr>
<tr>
<td>1982</td>
<td>2655.1</td>
<td>1483.9</td>
<td>3378.2</td>
<td>7694.2</td>
<td>7441.9</td>
</tr>
<tr>
<td>1983</td>
<td>3663.6</td>
<td>1716.2</td>
<td>2792.2</td>
<td>7871.0</td>
<td>9797.0</td>
</tr>
<tr>
<td>1984</td>
<td>3671.5</td>
<td>1612.3</td>
<td>2790.0</td>
<td>8737.4</td>
<td>12148.5</td>
</tr>
<tr>
<td>1985</td>
<td>2864.0</td>
<td>1595.0</td>
<td>2667.0</td>
<td>8970.0</td>
<td>12229.0</td>
</tr>
<tr>
<td>1986</td>
<td>3183.0</td>
<td>650.0</td>
<td>2876.0</td>
<td>5408.0</td>
<td>14911.0</td>
</tr>
<tr>
<td>1987</td>
<td>3764.0</td>
<td>657.0</td>
<td>3218.0</td>
<td>6223.0</td>
<td>18147.0</td>
</tr>
<tr>
<td>1988</td>
<td>3717.0</td>
<td>893.0</td>
<td>3139.0</td>
<td>7241.0</td>
<td>20486.0</td>
</tr>
<tr>
<td>1990</td>
<td>2930.0</td>
<td>793.0</td>
<td>4845.0</td>
<td>7613.0</td>
<td>17365.0</td>
</tr>
</tbody>
</table>


1.3.2 It can be seen that the categories of rubber and tin, which were the two mainstays of the economy in the early history of Malaysia, has declined in terms of export value. Manufacturing products have held the number one position for several years now and it is forecasted that it will continue to be the main source of revenue for the country in the future since agricultural and mining sectors have declined due to weak prices. This has happened despite improvements in the production of palm oil and rubber causing the export volume for both commodities to increases.
1.3.3 Table 1.4 shows the balance of payment position of Malaysia which fluctuated with revenues from exports and growth in foreign imports.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GOODS AND SERVICES</td>
<td>-2,100</td>
<td>-3,978</td>
<td>-27,647</td>
<td>-25,556</td>
</tr>
<tr>
<td>MERCHANDISE ACCOUNT</td>
<td>+8,628</td>
<td>+6,549</td>
<td>+14,633</td>
<td>+26,423</td>
</tr>
<tr>
<td>-EXPORT</td>
<td>37,905</td>
<td>42,069</td>
<td>163,056</td>
<td>165,742</td>
</tr>
<tr>
<td>-IMPORT</td>
<td>29,277</td>
<td>35,520</td>
<td>146,423</td>
<td>159,319</td>
</tr>
<tr>
<td>SERVICES ACCOUNT OF WHICH:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FREIGHT &amp; INSURANCE</td>
<td>-10,728</td>
<td>-10,527</td>
<td>-42,280</td>
<td>-51,989</td>
</tr>
<tr>
<td>INVESTMENT INCOME</td>
<td>-5,692</td>
<td>-7,115</td>
<td>-19,620</td>
<td>-33,285</td>
</tr>
</tbody>
</table>


1.3.4 Even though foreign imports have declined recently, the position is still very much unfavourable brought about by the negative service account in the balance of payments which is traced to payments of freight and insurance and the servicing of foreign loans. Fluctuations in the value of the Malaysian currency (Ringgit), which has depreciated considerably against major currencies in recent years, has also negatively affected Malaysia’s debt servicing. The freight and insurance position has been similarly affected since it forms a substantial part of the government’s
expenditure. Since the government is committed to past loans, its focus is now on the reduction of freight and insurance payments and new external borrowings. As such the policy now is to try to encourage the carriage of Malaysian cargo by Malaysian vessels and through Malaysian ports. In this respect, Malaysian lines have a very important and significant role to play in order to meet the objectives of reducing the deficit in the balance of payments by minimizing the dependence on foreign lines.
CHAPTER 2. THE MALAYSIAN SHIPPING INDUSTRY - AN OVERVIEW.

2.1 DOMESTIC SHIPPING IN MALAYSIA.

2.1.1 Domestic shipping in Malaysia is regulated by the Cabotage Laws which were introduced in 1980. If we go back to history, 1963 could be looked upon as an important date as far as domestic shipping in Malaysia is concerned because it was then that we saw the formation of Malaysia by the integration of Peninsular Malaysia and the States of Sabah and Sarawak (East Malaysia), which are 650 km across the South China Sea. This established the importance of inter-regional trade between Peninsular and East Malaysia. This trade, prior to 1980 before the laws were introduced, was left freely to anybody who was interested in the trade. The trade route between Peninsular and Sabah/Sarawak is still the main trade route for domestic shipping.

2.1.2 The original Cabotage Laws prohibits the carriage of cargo or passengers between any two ports in Malaysia by non-Malaysian vessels. This was amended in 1984 to include the transportation between any two places in Malaysia. Under this, vessels more than 15 NRT wishing to trade between any two places in Malaysia must possess a valid licence which is issued by the Domestic Shipping and Licensing Board (DSLB), an authority under the Ministry of Transport. The Cabotage Laws which were formulated under the Cabotage Policy has the main objective of eliminating the participation of foreign vessels in the carriage of cargoes and passengers intended for the domestic market. The 1984 amendments also included supply vessels which
serviced the offshore industry which is steadily becoming an important industry to the country. Table 2.1 shows the numbers and the GRT of Malaysian vessels which were licenced for the period 1981-1990. From this it can be seen that the trend is an increasing one, especially in the numbers of Malaysian vessels that have been licenced to participate in domestic shipping. Two of the largest domestic operators are the Malaysian International Shipping Corporation (MISC) Coastal Shipping Company and Kris Shipping Company.


<table>
<thead>
<tr>
<th>YEAR</th>
<th>NUMBERS</th>
<th>GRT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>132</td>
<td>151,937</td>
</tr>
<tr>
<td>1982</td>
<td>212</td>
<td>260,542</td>
</tr>
<tr>
<td>1983</td>
<td>189</td>
<td>325,937</td>
</tr>
<tr>
<td>1984</td>
<td>233</td>
<td>428,136</td>
</tr>
<tr>
<td>1985</td>
<td>273</td>
<td>405,786</td>
</tr>
<tr>
<td>1986</td>
<td>266</td>
<td>558,508</td>
</tr>
<tr>
<td>1987</td>
<td>252</td>
<td>491,652</td>
</tr>
<tr>
<td>1988</td>
<td>251</td>
<td>483,644</td>
</tr>
<tr>
<td>1989</td>
<td>255</td>
<td>425,662</td>
</tr>
<tr>
<td>1990</td>
<td>301</td>
<td>527,662</td>
</tr>
</tbody>
</table>

Source: Secritariat, Domestic Shipping Licensing Board, Kuala Lumpur.

2.1.3 Although the Cabotage Laws were formulated for the purpose of reserving Malaysian domestic shipping to national vessels, the possibility was forseen of not enough Malaysian vessels be available to pursue the trade. Of equal concern was Malaysia's lack of specialised vessels which were required for the offshore industry. Thus, the laws also provided for the granting of waivers to non-
Malaysian vessels to operate in the trade if no Malaysian vessels are available to carry the cargo concerned. This was included with the intention that the waiver will be phased out once there are enough Malaysian vessels to meet the domestic transport demand. In this connection, these foreign vessels were usually granted a temporary or conditional license (valid for several months) while a Malaysian vessel meeting all requirements will usually be given a licence which is valid for three years. Table 2.2 contains information on the total numbers of licences issued by the DSLB by types of registry.

### TABLE 2.2 - TOTAL NUMBER OF LICENCES ISSUED, 1982-1988. ('000)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>MALAYSIAN REGISTERED VESSELS</th>
<th>FOREIGN REGISTERED VESSELS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TOTAL LICENCE VESSELS</td>
<td>TOTAL TONNAGE</td>
</tr>
<tr>
<td>1982</td>
<td>274</td>
<td>212</td>
</tr>
<tr>
<td>1983</td>
<td>331</td>
<td>189</td>
</tr>
<tr>
<td>1984</td>
<td>380</td>
<td>233</td>
</tr>
<tr>
<td>1985</td>
<td>445</td>
<td>273</td>
</tr>
<tr>
<td>1986</td>
<td>415</td>
<td>266</td>
</tr>
<tr>
<td>1987</td>
<td>316</td>
<td>252</td>
</tr>
<tr>
<td>1988</td>
<td>239</td>
<td>251</td>
</tr>
</tbody>
</table>

Source: Secretariat, Domestic Shipping Licensing Board, Kuala Lumpur.

2.1.4 In the ten years that the laws were in force, several problems have been detected, some of which have been solved, although at an ad hoc basis. These problems can be said to be both in the structural forms (for
example, defects in policy) as well as operational (for example, old and unsuitable vessels for the trade). Some of those problems are overtonnage, old ships, financing problems and lack of experts either in the government sector or in the industry itself. The issue of old and inappropriate vessels being used in the trade and the question of poor management have been raised quite a number of times. The initial response was for the DSLB to introduce a law which prohibits the usage of vessels of more than a certain age but this proposal has not been decided upon yet. It was the consensus that market forces will decide the fate of inexperienced new entrants who jumped into the business solely for the purpose of making quick money. Table 2.3 illustrate the age of vessels currently being employed in the domestic trade which shows that more than 54% are vessels of more than 10 years old. Therefore, one of the goals would be to have an appropriate and relatively modern coastal fleet which would be able to satisfy the demand of the domestic transport sector efficiently.

Table 2.3 - Licensed Vessels by Age Groups as at 1990.

<table>
<thead>
<tr>
<th>AGE GROUPS</th>
<th>NUMBERS</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5 YEARS</td>
<td>47</td>
<td>15.6%</td>
</tr>
<tr>
<td>6-10 YEARS</td>
<td>91</td>
<td>30.2%</td>
</tr>
<tr>
<td>11-15 YEARS</td>
<td>42</td>
<td>14.0%</td>
</tr>
<tr>
<td>16-20 YEARS</td>
<td>62</td>
<td>20.6%</td>
</tr>
<tr>
<td>MORE THAN 20 YEARS</td>
<td>59</td>
<td>19.6%</td>
</tr>
</tbody>
</table>

Source: Secretariat, Domestic Shipping Licensing Board, Kuala Lumpur.
2.1.5 Overtonnaging was and still is an issue alleged to be the situation in the domestic trade by the Malaysian Shipowners' Association (MASA). Although no real study has been conducted on this, it is generally believed that overtonnage does exist in the dry cargo market. The World Bank which conducted the 'National Transport Study' for Malaysia in 1988 indirectly concluded that prior to 1990 there will be extra capacity in this sector. The DSLB prior to 1990 did examine the possibility of freezing or limiting the number of licences issued to this sector but no direct decision on this matter has been taken. It would be prudent for a comprehensive study to be conducted first before any decisions regarding the freezing or limiting licences is taken.

2.1.6 Other problems which have been identified concern the level of expertise and professionalism in the industry itself, as well as the lack of expertise in the present institutional and regulating bodies. As coastal shipping contributes to the savings of foreign exchange it is of paramount importance that this sector get the necessary support and attention from the government (at least from the point of view of foreign exchange retention). This however, is difficult to implement at the present moment since good decisions cannot be made due to the lack of availability of background information.

2.2 INTERNATIONAL SHIPPING.

2.2.1 The national shipping fleet involvement as far as international shipping is concerned is concentrated on two
major and a few other smaller national shipping lines. Much has changed since Malaysia’s independence in 1957 where the formation of the MISC earmarked the beginning of the shipping era in Malaysia. MISC still remains as the biggest national shipping line in Malaysia. The formation of MISC was followed by the formation of Perbadanan National Shipping Line (PNSL) in 1982. The company was created, among other reasons, to enable Malaysian shippers to have a choice in shipping their goods. It was envisioned originally that PNSL would be a tramp shipping company. Incorporated with a paid-up capital of M$10 million and an authorised capital of M$100 million, 100% of its equity is owned by the government through the National Corporation of Malaysia (PERNAS).

2.2.2 There were some indications that PNSL might involve itself in liner shipping; but, this if valid has not yet materialized. PNSL, unlike MISC, gets involved and participates in the carriage of Malaysian trade, specializing in the carriage of bulk commodities such as palm oil and cement. Apart from shipping activities, per se, PNSL is also involved with marine services through several joint ventures with foreign companies. It has been supported by the shikunisen-style of financing. Fleet expansion based on charters and joint ventures is less risky than that based solely on the spot market. Thus, the setting up and the entry of PNSL may be considered as an attempt by the government to increase its foreign exchange earnings through less risky means leaving the commercial risk taking to MISC. Although PNSL must compete with MISC for commercial charter opportunities, the area of overlap in the efforts of the two companies should be minimal.
2.2.3 MISC being the largest national line, makes up the bulk of the shipping fleet. Although envisaged early on that its creation would at last involve some participation by Malaysian national vessels in the carriage of Malaysian trade, this has not been the case due to several reasons which will be expanded upon later. But MISC, based on its experience from past carriage of Malaysian cargo, has found that the carriage of national cargo is less lucrative than cross-trading; and, that bulk shipping has been found to be less lucrative than liner shipping. This is basically due to the nature of Malaysian exports which have resulted in empty, or an insufficient level of backhauls cargo, to make such practises profitable. What MISC has become is basically a cross-trader. It currently has more than 40 vessels at its disposal. The major types of vessels available are tankers, ore/oil carriers, panamax bulkers and LNG ships. Almost 90% of its fleet is dedicated to the participation in international trade while the balance of 10% is used in coastal shipping.

2.2.4 As far as international shipping is concerned, MISC’s services can be categorized into two areas i.e. liner and tramp services. It is a member of Far East Freight Conference (FEFC) where it operates jointly with Scan Dutch/MISC Group within the FEFC. The share of Malaysian trade that MISC carries is estimated to be between 16 and 20% for both east and west bound trades within the FEFC. Meanwhile the tramp services are the biggest revenue earner for the company especially from the LNG vessels that it has owned and operated since 1984. The cross-trading activities are still the major source of
revenue, although with the commissioning of the LNG vessels carrying Malaysian gas, the contribution to revenue from this source has dropped from an estimated 80% of the total before 1984 to only 60% after 1984. MISC has also indicated that, to maintain its international image, it is willing to divest its coastal services. But, this has not happened yet, as any decision to pull out of the coastal services might not be keeping with future government policy plans.

2.2.5 The other Malaysian shipping company is Multi Purpose Shipping Company. This private sector company was created in 1984 when Multi Purpose Holdings, through its subsidiary Mulpha International Trading Company, acquired a controlling interest in Hong Kong's Prompt Shipping. At the moment most of its fleet are registered in Hong Kong but the company has plans for these vessels to be reflagged in Malaysia to take advantage of the flexible and attractive registration laws in Malaysia. The company operates both in liner trade and in the bulk sector. Its liner services are concentrated in China, West African ports and Europe.

2.2.6 The latest addition to the registry would be five 130,000 cubic meter LNG carrier which will be delivered between 1994 and 1997. The five vessels have been ordered by Petronas Marine (a subsidiary of PETRONAS, a state oil outfit) which have been set up to manage the operation of the shipment of LNG to importing countries. This latest addition will certainly boost the registry and the capability of Malaysian fleet to carry more of its foreign trade.
3.1 SHIPPING INDUSTRY AND THE MALAYSIAN ECONOMY.

3.1.1 During the last 40 years we have seen the emergence of shipping fleets in many developing as well as previously non-maritime countries. This sudden interest in developing a country's national merchant fleet can be traced to several factors, the majors factors are:

a) the disruption of shipping services caused by the removal of tonnage from commercial operations during the second world war;

b) problems with balance of payments which many developing countries face, placing a premium on the savings of foreign exchange and giving rise to many bilateral trading arrangements;

c) independence and the consequent emergence of national consciousness; and

d) the conscious efforts made by countries with low per capita income to develop and diversify their economies.

3.1.2 As mentioned previously, the potential for avoiding substantial foreign exchange payments for maritime freight is often given by developing countries as one important reason for investment in a national merchant fleet and as an example, this has been a major factor where
South Korea and India. For example, the balance of payments data compiled by the International Monetary Fund (IMF) shows that in 1975, 75 developing countries paid US$13,200 million for freight to foreign lines. A World Bank working paper in the same year (with inputs from IMF data) concluded that the cost of imported freight and insurance services for the developing countries (for which data was collected by IMF) was $14.1 billion, or 10% of their trade input value.

3.1.3 On the other hand, any freight paid to a national line for a country’s foreign trade is a foreign exchange savings. The net saving however, could vary significantly depending on several factors, among these are:

a) the age and types of vessels involved, bearing in mind the differing cost structure for these vessels depending on whether operated under a national flag or a foreign flag;

b) the method whereby the vessels have been acquired and the financial arrangements;

c) the involvement of national resources in operations (for example, manning, management, repair facilities);

d) the operating efficiency and level of profitability obtained;

e) the impact on freight rates; and
f) the trading routes involving the national trade.

3.1.3 So it was with Malaysia when she decided to develop her own merchant fleet. Malaysia's main concern was the adverse balance of payments position, which was aggravated by an increasingly huge outflow of payments for insurance and freight. Malaysia's total reliance on international trade, where more than 90% is transported by sea illustrates her dependence. Even though no study has been conducted to determine how reliant Malaysia is on foreign lines in the carriage of her foreign trade, it is generally accepted that Malaysia's national merchant fleet is only involved in the carriage of 6 to 8% of her own goods. Table 3.1 shows Malaysia's balance of payments position for the period 1980-1990.

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<tbody>
<tr>
<td>GOODS &amp; SERVICES:</td>
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<tr>
<td>MERCHANDISE ACCOUNT:</td>
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<tr>
<td>- EXPORT:</td>
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<tr>
<td>- IMPORT:</td>
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<tr>
<td>SERVICES ACCOUNT OF:</td>
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<td>WHICH:-</td>
</tr>
<tr>
<td>FREIGHT &amp; INSURANCE:</td>
</tr>
<tr>
<td>INVESTMENT INCOME:</td>
</tr>
</tbody>
</table>

3.1.5 Basically the position of the freight and insurance components of the outflow of payments has improved considerably in recent years. Between 1961 and 1983 the freight category grew to account for between 20-25% of the services component. In 1983, this amounted to M$2.2 billion and, from table 3.1 this was M$0.753 billion and M$1.942 billion for 1985 and 1990 respectively. The government has expressed serious concern over this issue and is focussing on reducing freight and insurance payments through the development of a policy which basically has the objective of encouraging the usage and transport of Malaysian foreign trade by Malaysian vessels and through Malaysian ports.

3.1.6 The case for the carriage of foreign trade by national vessels has some aspects to it which need close monitoring. As an illustration, if a chartered vessel is used, there would not normally be any foreign exchange savings on the crew account and only attributable to management. On the other hand, there are no direct acquisition and financing costs, although an allowance for capital costs will normally be included in the charter rate. In the case of bareboat chartering, with an option to buy, crew and management costs would largely be national costs and the capital costs would be included in the charter payments. The same argument can be used in the case of financing arrangements, operating efficiency and the level of profitability of any national shipping lines in the determination of savings which can be made in the foreign exchange.

3.1.7 Basically, the adverse position in the balance of
Payments can be traced to Malaysia's export-oriented economy which led to her almost total reliance on foreign shipping apart from the fact that Malaysia's merchant fleet is still a young fleet and the fact that Malaysia's biggest national line, MISC, is largely a cross-trader. The relative inelasticity in supply of Malaysia's major exports (such as rubber, palm oil and timber) and elastic demand for imports has resulted in increased transport costs. Malaysia's diversification program, with emphasis on industrialization in the 1980's has somehow alleviated this weakness slightly as can be seen from table 3.1 above.

3.1.8 The redressing of the balance of payments problem has been the objective of several maritime development plans as well as the objective in the formulation of a shipping policy in Malaysia. As far as reducing freight flows, Malaysian shippers are encouraged to use Malaysian fleet. In the case of foreign fleet usage, the negotiation of rates that are cost effective and stable (as shown by practices of the Malaysian Palm Oil Producers' Association) which had a very effective agreement which met their shipping requirements in terms of service, types of vessels and freight rates stability. It is also the same with another Malaysian organisation, the Malaysian Rubber Exchange and Licensing Board (MRELB) which negotiates favorable rates for rubber shipments including the provision of appropriate vessels.

3.1.9 The consolidation or aggregation of cargo as done by the Malaysian Freight Booking Centre (MFBC), which was formed in 1984 (but disbanded later in 1990), has an
advantage of controlling freight rates and the possibility of using national lines. This will result in a reduced outflow of foreign exchange. During its existence it has proven that such a body can and is a necessary tool in the strategy of a government to assist in the development of its merchant fleet and in the reduction in the flow of invisibles. Its disbanding resulted from financial limitations.

3.1.10 The creation of MISC, and subsequently PNSL and other shipping lines, has been the major step taken by the government in order to reduce the outflow of invisibles. It has been shown that under the right conditions, owning a merchant fleet would, in principle, offer advantage in terms of foreign exchange savings, regardless of the national line's involvement in the country's foreign trade. In the case of Malaysia, this advantage might not arise or be visible at the present. But, as a long term investment, it is expected that the national lines will contribute and result in a net positive return to the economy as experience, expertise and the level of efficiency gathers momentum in these national lines.

3.1.11 In the long term too, Malaysia's forecast of growth rate in the foreign trade would be positive and should serve as a catalyst in the expansion of the national fleet. This advantage is further buoyed by a number of factors. Malaysia's efficient ports, the majority of which are in the midst of being privatised as part of the government privatisation programme account for one significant factor. A very low cost and efficient work
force, as well as low administrative expenses provide additional advantages. The government efforts in providing opportunitites to the national merchant marine fleet can also be traced to the emphasis that has been given to allocating funds to the various Malaysia Development Plans. The Fourth Malaysia Plan (1981-1985) allocated 14.84% to the transport sector while the Fifth Malaysia Plan (1986-1990) allocated 24.4%. The Ministry of Transport expects to receive at least one quarter of the total fund from the Sixth Malaysia Plan (1991-1995) which has been approved a fund of M$55 billions. This request for a bigger allocation was made by the Transport Ministry in order to meet ports' expansion program designed to further raise port capacity in anticipation of a better future growth rate in Malaysia's foreign trade. This was the strategy followed by some newly industrialized countries such as Singapore, Taiwan and South Korea. All have capitalised on their expanding foreign trade, low cost of labor and management expenses, efficient managerial operations and supporting services. These have been keys to their success in developing and expanding their shipping fleet to meet national interests and necessities.

3.1.12 The importance of the shipping industry to the Malaysian economy can also be seen from the point of view of:

a) employment opportunities; and

b) as an export promotion, industrial integration and economic integration mechanism.
3.1.13 In terms of employment opportunities, there is ample scope for this in the Malaysian shipping sector. The Malaysian Central Merchantile Marine Fund (a welfare fund established for seamen) completed a survey in 1983. This survey found that only 48% of officers employed onboard Malaysian vessels were Malaysian as compared to 96% for the crew. Malaysia still lacks trained officers to man her vessels as can be seen from the fact that MISC still employs foreign officers on board its vessels. But, at present MISC is in the process of placing trained Malaysian officers on these vessels as they become available. The use of foreign officers has a disadvantage in the form of outflow of foreign exchange which the government is trying to address.

3.1.14 Malaysia, like other developing countries tries to minimize dependence on foreign shipping by diversifying her economy through her industrialisation program which should in turn further stimulate her economy. Such diversification and industrialisation creates additional tonnage which should create additional demand in liner services. Thus, the increased tonnage helps to promote trade by influencing the overall availability and adequacies of liner services linking Malaysia with the outside world. At the same time, as mentioned previously, this exerts a pressure upon the levels of freight rates at which the national trade is carried.

3.1.15 Malaysia should also consider the usage of promotional freight rate as a means of establishing new markets for her products. Studies have indicated that such mechanisms help, and might be crucial, in the initial stage
of breaking into new markets. When promoting new products, Malaysian vessels can play a positive role by participating in the carriage of those products at promotional low freight rates to allow an increase in volume of exports. This in turn should allow Malaysia to compete more effectively in the open market. Although the balance sheet of the shipping lines will show a deficit, the aggregate income of Malaysia will certainly increase and deficits suffered by those lines can be covered by the government in the form of subsidies or other forms.

3.1.16 The shipping industry is a very important industry and in many countries, it helps to promote the growth of other related industries which serve and support it. The economic spin off that it creates is important to the economy of a country. Malaysian lines through the Cabotage Policy have also helped to promote economic integration between East and West Malaysia. Thus, the Malaysian shipping industry is an important and an essential element in the integration of the national economy.

3.2 ANCILLARY SERVICES.

3.2.1 Shipping is a complex industry and needs supporting services. The role played by these other related industries or sectors is a very important economic element and their overall contribution to the Malaysian economy is enormous. The major supporting sector of the shipping industry in Malaysia are the ports, the shipbuilding and the shiprepair industries. Other minor related services
such as forwarding and shipping agents, marine insurance, etc., also contribute support.

3.2.2 Ports in Malaysia are generally well equipped, modern and efficient. The ports of Penang and Klang are the main gateways for Peninsular Malaysia, while the ports of Kuching and Sabah are the gateways for Sarawak and Sabah, respectively. Malaysia’s development program of her ports can be traced to her desire to have reliable and well equipped national ports to meet a growing trade demand to facilitate trade and to promote new trade opportunities. Ports have also been looked upon as a catalyst for promoting regional development in adjacent towns and cities and as a catalyst for industrialization and investments. In addition the existence of ports are seen to create spin off industries which provide new employment opportunities.

3.2.3 The government’s interest in developing its ports can be seen from allocations given to the port sector in Malaysia’s 5 Years Development Plans (starting with the First Malaysia Plans in 1966). For the first four Development Plans, the ports allocation was more than 20% of the total transport sector’s allocation. There was a significant drop for the Fifth Malaysia Plan but the Sixth Malaysia Plan (1991-1995) will see a significant increase in the allocation given to the port sector. In terms of total cargo throughput, 79 millions tonnes of cargo were handled by all the ports and the forecasted figure for 1990 is 113 millions tonnes. A National Ports Plan study was conducted in 1985 to review the port sector with the primary objective of developing suitable objectives,
policies and strategies for future developments and the identification of roles that any particular port could play in promoting growth of the national economy.

3.2.4 The shipbuilding and shiprepair industry which employs a substantial number of workers consists of 2 large and 5 medium size shipyards. There are also other smaller yards which specialize in construction of small scale or traditional craft. The 2 major shipyards are the Malaysian Shipyard and Engineering (MSE) and the Sabah Shipyard Corporation (SSC). Both yards suffered losses in their initial years of operation due to the keen competition from other well established shipyards in the region and in South Korea and Japan. It costs more to build vessels in Malaysian yards (estimated at 30% more) because most of the materials are imported and this in turn results in longer delivery times.

3.2.5 The shiprepair industry has fared better than the shipbuilding industry however. The greater net retention of foreign exchange in the country has made the shiprepair industry a more viable industry and it deserves a wider support and a higher priority from the government. Both the shiprepair and shipbuilding industries have benefited from the Industrial Master Plans programme which, since 1988, has studied this sector of the maritime economy and has prepared several proposals to help the industry further. The Plans have also looked at the various ways that the industries could develop a better utilization rate, especially by local shipowners, and to be more competitive in terms of prices and services plus delivery time which
have been major factors in the industry’s inability to get enough orders from inside and outside the country.

3.2.6 The other minor supporting services such as forwarding and shipping agents, banking etc. are generally lacking in expertise. Government intervention and regulations in these sectors are minimal. There have been moves to localize some of these sectors as much as possible in order to retain foreign exchange.
4.1 FLEET DEVELOPMENT.

4.1.1 Developing countries may have different and particular reasons for developing their national fleet. These reasons are often related to real or perceived inequalities in the international ocean transport system. In the case of Malaysia, and as explained in earlier chapters, the rational was her desire to counter foreign exchange losses from freight and insurance payments. It was her desire to be self reliant in shipping and to carry a greater share of her foreign trade than the presently estimated percentage of only between 6 to 10%. With this rational as a background, the first national shipping company, MISC, was formed and over the years, MISC has been the catalyst which has stimulated further growth of the national fleet. MISC has played a dominant role in the history of shipping in Malaysia.

4.1.2 Since the formation of MISC in 1968, the Malaysian registry has shown a steady growth. The rate of growth has in fact accelerated. Table 4.1 shows the size of the Malaysian fleet from 1981-1990.


<table>
<thead>
<tr>
<th>YEAR</th>
<th>NUMBERS</th>
<th>GRT</th>
</tr>
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<tbody>
<tr>
<td>1981</td>
<td>362</td>
<td>0.580</td>
</tr>
<tr>
<td>1982</td>
<td>433</td>
<td>0.733</td>
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<tr>
<td>1983</td>
<td>530</td>
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<tr>
<td>1984</td>
<td>622</td>
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<tr>
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<tr>
<td>1986</td>
<td>789</td>
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<td>898</td>
<td>1.720</td>
</tr>
<tr>
<td>1989</td>
<td>916</td>
<td>2.013</td>
</tr>
<tr>
<td>1990</td>
<td>997</td>
<td>2.024</td>
</tr>
</tbody>
</table>

Source: Shipping Division, Ministry of Transport, Kuala Lumpur.
4.1.3 Over the past 10 years since 1981, the register has grown by almost 350% in terms of tonnage. As of 1990, the register was comprised of 997 vessels of various kinds with a total tonnage of 2.024 million GRT. This rapid growth in the fleet since 1981 can be attributed to the rapid expansion of the coastal fleet as a result of the Cabotage Laws which were introduced in 1980 which reserved the rights of carriage of cargo and passengers between any two places in Malaysia to Malaysian registered vessels. The expansion of MISC and the formation of PNSL, (currently the second biggest national line) in 1982 contributed to further growth. Table 4.2 gives the types, tonnage and number of vessels in the registry from 1983-1988. This data reflects the diversity of the fleet, which ranges from the conventional general cargo vessels to the more sophisticated and specialised chemical and LNG carriers.

4.1.4 The growth can also be attributed to the desire of the government to make Malaysia a "maritime nation" as enunciated in the Third Malaysian Plan (1976-1980) with emphasis on shipping. Although the notion "maritime nation" and the shipping policy that followed were not defined, the Ministry of Transport chose to define it broadly: "to develop an efficient, well diversified and modern merchant marine fleet". These were some of the reasons for the rapid growth in the national fleet since it was first started in 1968 with MISC.

4.1.5 In terms of age, the Malaysian fleet can be considered young. This was more prominent prior to 1980 before the introduction of the Cabotage Laws. Since then, and with the entrants of new individuals and companies who
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<td>PASSENGER/ CARGO CARRIERS</td>
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<tr>
<td>TOTAL NO. GRT</td>
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<td>714</td>
<td>789</td>
<td>856</td>
<td>898</td>
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<td>1,720,427</td>
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</tbody>
</table>

Ministry of Transport, Kuala Lumpur.
wanted to take advantage of the Cabotage Laws, the age of the national fleet has changed. In 1989 more than 62% of the total GRT were vessels of less than 10 years old. The highest percentage for the age group now is for vessels between 10-15 years old. In terms of tonnage, a significant number of Malaysian vessels are more than 20,000 grt. This can be directly related to the activities of MISC which owns most of the big vessels in the registry.

4.1.6 The growth and development of the Malaysian registry is synonymous with the growth of MISC and the growth of PNSL (to a lesser extent). Together they dominate the registry for any single year. In 1986, MISC owned 44 vessels with a total tonnage of 1.48 million dwt whilst PNSL owned 9 vessels with a tonnage of 263,307 dwt. The Fourth Malaysian Plans (1981-1985) envisaged that MISC would eventually have a fleet of 2.5 million dwt. This target has not been achieved so far due to the current market situation. The market will eventually decide both MISC and PNSL expansion plans. MISC's privatization in 1986 (prior to that it was a private limited liability corporation with equity participation from the federal and states governments, statutory bodies and private individuals) certainly helped in the expansion direction. The government does not now see MISC as a controlled instrument of the government's transport policy but expects MISC to act on its own in the best interest of the country. This independence has been demonstrated by the fact that it has sometimes acted more on political grounds than on sound commercial grounds.
4.2 SUPPORTS FOR FURTHER FLEET DEVELOPMENT.

4.2.1 The development of the national fleet has been encouraged through several incentives and initiatives. Malaysia's lack of a well defined shipping policy however, has resulted in an uncoordinated package which could have further supported development and growth. Malaysia has a bright prospect for expansion in her seaborne trade although most of her trading partners experienced a slowdown in economic growth in the late 80's. Table 4.3 reflects the steady growth in seaborne trade of Malaysia.

### TABLE 4.3 - SEABORNE TRADE OF MALAYSIA (1985-1988).

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</thead>
<tbody>
<tr>
<td>TONNAGE</td>
<td>60,386</td>
<td>63,712</td>
<td>70,548</td>
<td>75,884</td>
</tr>
</tbody>
</table>


4.2.2 On the average there is a growth of more than 10% every year. Rapid expansion in the industrial sector is also being witnessed which would provide growth in the containerized traffic. Shipping services in Malaysia have also been forecast to have an increase in demand. Further, Malaysia is embarking on privatization plans for its ports which are in the process of expansion in anticipation of bright prospects for traffic growth.

4.2.3 Those factors above should provide ample opportunities for the continued growth and development of the national fleet. Past support for such growth indicated
by the government includes:

a) cargo reservation in the usage of MISC and PNSL vessels to carry government cargoes. The volume of cargo involved here has however been insufficient. Malaysia's adoption of the UNCTAD Code of Conduct for Liner Conferences would certainly provide support for the national fleet. but, so far, Malaysia has not formalised the means by which allocation of non-government cargo is to take place;

b) the introduction of the Cabotage Laws in 1980 to encourage the growth of the national fleet and as a means to develop the expertise to increase national participation in international trade;

c) several tax benefits introduced in the 1982 budget which were further revised in the 1984 budget. These include exemption from income tax of any income derived from any shipping business. Any dividend paid, credited or distributed is also tax exempt. Crew members working onboard Malaysian vessels are exempted from the same tax in order to encourage the participation of Malaysians in the shipping industry. In ships acquisitions, there is no surtax on ships greater than 26 GRT;

d) the priority on the development of Malaysia's national fleet and the manning of the fleet by
her own nationals. To achieve this objective, training facilities have been developed and currently, two training facilities exist in Malaysia: i) the Maritime Academy of Malaysia (ALAM) at Malacca trains general purpose and catering ratings, radio officers and pre-sea cadets, ii) the Politeknik Engku Omar at Ipoh offers a marine engineering diploma; and e) the setting up of the Malaysian Freight Booking Centre (MFBC). This was established in the middle of 1980’s to obtain appropriate shipping services and better freight rates through cargo aggregation. However the MFBC was disbanded in 1990. This was seen as a setback to Malaysia’s effort in fleet expansion. It is a well known fact that support for a national fleet by shippers requires control over the carriers selection through the terms of sales negotiated. It has always been the case for most of the times that for most Malaysian cargoes, the control is with the buyer and seller as sales are made on FOB and CIF basis respectively. MFBC consolidation and negotiation functions would have been a significant mechanism in supporting the national fleet.

4.3 STRUCTURAL LIMITATIONS.

4.3.1 Better seaborne trade growth prospects, a port
privatisation and expansion program, industrialisation and incentives to the shipping industry should provide opportunities for further growth and development of the national merchant fleet. Nevertheless, there exist several structural problems which in a way could hamper and limit the capability of the national fleet to meet the challenge put up by the expected increase in the seaborne trade. The government's objective of reducing the flow of invisibles through the participation of the national fleet in the carriage of the foreign trade would require more support from the government in order to redress these limitations. The inability of Malaysian lines to keep pace with the growth in trade can be traced to several factors as enumerated by the Malaysian Shipowners Association (MASA):

a) the tendency of local exporters and importers to leave shipping arrangements in the hands of foreign counterparts shows little regard for saving of invisibles or the potential for improving competition by having control of shipping operations. There is definitely a need for more expertise in the industry as legislative measures are not a desirable option to counter this problem because of the nature of Malaysia's trade;

b) several large multinational corporations in Malaysia have the shipping and other logistics functions centrally coordinated at their base of operation located outside Malaysia. Many of these corporations have long established commercial or equity interest in large foreign lines which usually get first priority or
even exclusivity;

c) Malaysian ports situated in the Straits of Malacca lie on one of the busiest sea lanes, are served by practically all global lines and since Malaysian trade and ports are open to free foreign access, Malaysian lines must contend with the global lines who benefit from economies of scale through use of large vessels and a worldwide network,

d) shipping is becoming even more capital intensive due to the steep rise in ship values and high investments in equipment, landside services and network cost. It is also highly prone to commercial and political risk. Expansion of the shipping sector therefore, cannot be funded through normal commercial loans but needs institutional funding by the government, an aspect which has already been addressed by many other governments which have an established merchant fleet; and

e) policy administration to promote the growth of the Malaysian merchant fleet is generally uncoordinated, fragmented and sometimes done on an ad-hoc basis.

4.3.2 As growth in foreign trade is fundamental to the Malaysian economy, there is scope for implementing support schemes which would not be detrimental to foreign trade but which would promote the Malaysian fleet. Some of the areas
that government support can come from are:

a) the Malaysian Industry Development Authority (MIDA) (which is responsible for approving foreign investment in the country) linking new investments to the use of Malaysian lines by means of incentives which will prompt voluntary support for Malaysian lines;

b) national lines participation in the carriage of crude oil exports through negotiation by the government and PETRONAS (which is the authority responsible for the commercial aspects of the oil industry) with importing countries for carriage rights in those long term sales contracts;

c) the offshore industry is fast becoming an important industry. But unfortunately it is dominated by foreign vessels due to the nature of the specialisation of these that is required of which Malaysia definitely lacks. There is a need for some policy guidelines in order to encourage acquisitions which would allow the entrance of national shipping lines in this sector. Various practises carried out at present by this industry need to be examined; for example, the length of contracts awarded, presently 3 years, is not long enough to attract national lines. Additionally inequalities and onerous conditions in the offshore service contracts which need to be revised to fall in line with internationally accepted practises; and
d) lack of financing infrastructure is presently a serious problem. There is a need to look deeply into this aspect. Comparison would have to be made with other countries and the possibility of creating a special fund for the purchase of pre-determined vessels at preferential terms. The present lending facilities are too stringent and impose unacceptable conditions.

4.3.3 Those structural limitations mentioned above would have to be addressed if the development of the national fleet is to be encouraged further in the future and appropriate measures or incentives, some example of which have been mentioned, would have to be evaluated as stimuli for the growth and development of the national fleet.
CHAPTER 5. MALAYSIAN SHIPPING POLICY.

5.1 OVERALL POLICY.

5.1.1 The Third Malaysia Plans (1976-1980) enunciated the objective of making Malaysia a "maritime nation". Unfortunately this was a broad policy objective where neither the meaning was defined nor was any indication given as to how this objective was going to be achieved. It was left to the Ministry of Transport which chose to define the objectives as:

a) the development of an efficient, well diversified and modern merchant fleet;

b) the development of an efficient and economically viable shipbuilding and shiprepairing industry;

c) the development of appropriate supporting shipping services such as marine law, insurance, banking and ports; and

d) the provision of skilled and professional manpower to operate all aspects of the industry.

5.1.2 The problem of lack of direction has resulted in a fragmented formulation of a shipping policy in Malaysia. Policy responsibilities can be traced to several government organizations. This weakness in the institutional framework, i.e. the lack of an organization solely
responsible for providing the leadership and administrative services, hampers the growth and development of such an important industry. This industry has substantially caused the outflow of foreign exchange in the form of freight and insurance amounting to M$1.942 billion in 1990. Further, there is also no integrated plan for the industry. For example, government policy, as implemented by MISC and PNSL is controlled by the Prime Minister's Department. Planning for the implementation of the UNCTAD Code of Conduct is under the purview of the Ministry of International Trade and Industry, while the Ministry of Transport is responsible for maritime legislation. Another example would be the exclusion of several aspects of the shipping industry such as shipbuilding and shiprepairing, shipping and forwarding agents which logically should be under the Ministry of Transport and this has resulted in problems in making decisions and in coordination in the past.

5.1.3 However, the policy statement of making Malaysia a "maritime nation" has positive aspects to it such that many new initiatives and activities have been carried out. One of the main achievements was the formation of the Maritime Division in 1982. This Division, under the Ministry of Transport, is responsible for policy formulation, planning, coordinating and monitoring of all maritime matters with a view towards developing and upgrading the effectiveness of the maritime industry in line with the nation's objective of achieving the status of a maritime nation. Consequently the Maritime Division has taken it upon itself the tasks of achieving the targets mentioned above.
5.1.4 Shipping, as is known, is a very international and complex industry involving and interwining with various aspects of transportation, national trade and the economy. Its activities mostly concern international trade and it operates within a complicated world pattern which involves shipping companies from various countries, international agreements and understandings and policies of governments. Thus, it is important to accept the fact that a national shipping policy cannot be defined to an exclusively national framework. The operation of a national merchant fleet, and the national maritime policy as well, must have objectives that take into account the international character of the shipping industry. They must work within international agreements and understandings. They must account for the effects of actions and regulations by foreign governments as well as the nature of the relations between governments, shippers and shipping companies. Measures applied to one's own merchant marine will, to some extent, have international repercussions and vice-versa. Many countries adopt quite liberal policies while others, although claiming their shipping policy is liberal, in fact adopt a variety of restrictive financial or administrative measures with respect to their national fleet, which may adversely affect its position vis-a-vis foreign operators.

5.1.5 Government's intervention in the shipping industry may have a permanent or ad hoc character. Permanent to the point that laws and regulations which have been enacted rarely change and ad-hoc, as and when necessary, depending on the political and economic situation of a particular country. This liberal versus
protectionism policy controversy has been a point for debate for many years now and has resulted in considerable controversies among traditional maritime nations and developing nations which have the view that they need to provide some support to their infant industry.

5.1.6 Liberalism in principle involves free and fair competition irrespective of the flag and shippers have the right of a free choice of carrier. Basically the principle speak to a merchant marine operating on the free market, without any intervention and thus any form of shipping protectionism is contrary to this principle.

5.1.7 On the other hand the basic principle of protectionism involves the protection of the domestic shipping industry from external competition. The main objectives of a protectionism policy are:

a) to maintain the already established position of a country’s merchant fleet; and

b) to expand a country’s merchant fleet to the size and structure desired and determined by the needs of the national economy.

5.1.8 Measures and forms of protectionist policy differ from country to country, but the basic approaches include:

a) provision of subsidies and financial assistance which can be direct or indirect. Typical
examples would be subsidies for building costs in the case of direct subsidy, tax and depreciation allowances for the indirect subsidy; and

b) administrative and legal measures taken by a government to support the industry which do not take the form of financial assistance but bring a definite advantage to the shipowner. An example of such an approach would be cargo reservation or cargo preference schemes.

5.1.9 Malaysia's undefined and fragmented shipping policy is based on the premise of the attainment of "maritime status". What it means is essentially the development and growth of the Malaysian fleet to achieve the carriage of a greater proportion of the national foreign trade (which at present has been estimated to be less than 8%). The essence of the policy is to conserve and improve foreign exchange earnings to reduce or eliminate the current drain on the national economy. This could be done in several ways, and in this connection the Malaysian fleet can play a significant role in achieving this goal. Contribution to this goal can be realized:

a) directly through earning foreign currency by providing services to the trade of foreign countries (cross trading); and

b) indirectly through the facilitation of national export by means of cheaper and better services which would save foreign exchange.
5.1.10 Several measures have been taken by the government towards achieving the objective of developing the merchant fleet. These measures include:

a) the liberalisation of the registration laws in Malaysia. Registration laws which are under the Merchant Shipping Ordinance (MSO) 1952 went through two major amendments in 1977 and 1984. Basically the purpose was to make the laws easier and more flexible so as to attract new vessels to the registry. This also encourages the possibility of the formation of joint shipping companies between nationals and non-nationals;

b) providing a tax free environment for Malaysian seamen and shipping companies to stimulate Malaysian involvement in maritime related occupations and companies;

c) the reservation of the domestic trade to Malaysian vessels in order to promote the growth of the national fleet. This also include the offshore industry which is growing in stature and importance;

d) the reservation of government cargo for carriage by MISC and PNSL;

e) providing bilateral agreements which address the carriage of the national trade on a basis of equality for vessels of both countries concerned;
f) the ratification of the UNCTAD code of Conduct for Liner Conferences; and

g) the encouragement of national importers and exporters to sell CIF and buy FOB.

5.1.11 Generally these measures in para 5.1.10 are designed to support fleet development and these measures, to a certain extent, can be regarded as a deliberate policy direction. It must be understood however, that many of the measures in a shipping policy may not be designed to operate as forms of protective policy, but rather are a part of the general economic strategy and policy of the nation. Hence the rationality or effectiveness of such a policy must be evaluated within the general strategy and policy of the country and not simply in terms of impact on maritime activities.

5.2 CABOTAGE LAWS.

5.2.1 The implementation of the Cabotage Laws in 1980 was a significant policy measure. Enacted with the main objective of reserving domestic cargo to Malaysian vessels, the policy has another objective of encouraging the participation of nationals in the shipping industry. To that extent, the policy has resulted in a significant increase in the participation of the private sector and individuals. This increased participation has directly contributed to the growth of the national fleet. It was also the objective of the policy to provide experience to the new entrants which will eventually possess enough
experience and capability to expand into international arena. Table 5.1 provides information on the number of licences issued since 1980 to 1988 where it can be seen that the objective of encouraging local participation has been quite successful. Although, in 1987 and 1988 there was a significant drop in the number of licences issued which can be possibly due to the overtonnage situation in certain sectors of the domestic trade.

<table>
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<th>GRT</th>
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<tr>
<td>1988</td>
<td>239</td>
<td>251</td>
<td>483</td>
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</tbody>
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Source: Secretariat, Domestic Shipping and Licensing Board, Ministry of Transport, Kuala Lumpur.

5.2.2 The Cabotage Policy which is regulated by the DSLB is not without its problems. Most of the vessels used in the domestic sector are quite old and only 45% of those vessels are below 10 years old. This however was an improvement compared to 1984 where 24% of the domestic fleet was under 10 years old. This usage of old vessels in the trade can be traced to lack of financing and the limited size of the operating companies which were formed
to take advantage of the Cabotage policy.

5.2.3 Then, there was the issue of overtonnage and the question of freezing licences in order to alleviate this problem. This in turn affected freight rates which had adverse effects on the companies operating the vessels. It is widely alleged that the Domestic Policy has resulted in increased transport cost. This in turn is alleged to have resulted in higher consumer prices which should not be the case if free competition were allowed in the trade. However, a study conducted for the Ministry of Transport in 1989 has managed to dispel this allegation where the study concluded that freight cost is generally low and only contributed a minor percentage to the overall transport cost which often involves several modes of transportation before the goods reach their destinations.

5.2.4 The Secretariat to the DSLB which has the responsibility of regulating the Cabotage Laws suffers from lack of staff and expertise which inhibits it from playing a more dynamic and effective role. The Secretariat also suffers from a lack of data from which to formulate initiatives and efforts in this area to obtain meaningful data have not met with success thus far. It is hoped that with the implementation of the UNCTAD L-2 Shipping Statistics Scheme, which has been revised, the necessary data will be made available for the planning and policy formulation purposes of the Secretariat.
5.3 BILATERAL ARRANGEMENTS.

5.3.1 With the objectives of diversifying her trading partners and at the same time providing opportunities for her national fleet, Malaysia has embarked on a policy of promoting bilateral agreements. As of 1989, Malaysia has signed shipping agreements with China, Pakistan, Sri Lanka, Turkey, Bangladesh, South Korea, the Belgo-Luxembourg Economic Union, India, Indonesia and the Soviet Union. Generally, these agreements provide for cooperation in the field of shipping between the governments concerned and between national shipping lines. Specific cooperative agreements include cargo sharing arrangements (which are usually on an equal sharing basis or on the basis of the Code of Conduct in the case of liner cargo), the guaranteed access to ports, and sometimes provisions for certain specific shipping activities in the countries concerned. Agreements which have been signed however, vary in contents from country to country depending on the interest of both parties concerned.

5.3.2 As mentioned above, one of the objectives of the bilateral agreements was to provide opportunities to national shipping lines for the carriage of Malaysia’s trade with those countries concerned. The shipping agreements provide for the sharing of cargo (traded between the countries concerned in the agreement) to be carried by lines of both countries on a specified sharing basis. This objective, to a certain extent, has not been a success. In most cases, the signing of bilateral shipping agreements has not led to a complete implementation of some of the provisions as desired. This is due to several reasons. The
major reason is Malaysia's lack of administrative expertise and an inadequate information system which is required to monitor bilateral shipping. As far as the lack of information is concerned, Malaysia is in the midst of implementing the revised UNCTAD L-2 Shipping Statistics Scheme which although was implemented in 1973, has been restricted in the kind of data which could be collected from the scheme due to technical problems. The revival of the scheme should provide Malaysia with the necessary information system to enable her to monitor more effectively the bilateral shipping agreements.

5.3.3 Another reason for the limited success of the shipping agreement policy is tied to the reluctance of Malaysia's national lines to participate in certain transport trades with some of these countries. This reluctance is due to the lack of appropriate shipping services presently available on some of the shipping routes between Malaysia and the countries concerned. Shipping lines often refrain from operating on these routes due to the sometimes "pioneer" status of these routes and at other times due to the insufficient volume of cargo available to sustain profitable or at least cost recoverable operations.

5.3.4 In this connection, government intervention in the form of some kind of incentives would be a driving factor in a national line's decision to venture into these 2 kinds of routes. This could perhaps, lead to the successful opening and development of new and pioneer trade routes similar to that experienced by the national lines from Brazil and India. The administrative factor needs to
be looked into. There is also a need for the government to reexamine the bilateral agreements strategy, and to focus on bilateral agreements with countries who are Malaysia's major trading partners. This should inevitably entice the participation of national shipping lines which would provide a more dynamic strategy for curbing foreign exchange loss.

5.4 UNCTAD CODE OF CONDUCT FOR LINER CONFERENCES.

5.4.1 One of the other most significant policy measures taken by the government was the ratification of the UNCTAD Code of Conduct. The Code itself is a significant development in liner shipping. Adopted in 1974 by a United Nations Conference of Plenipotentiary, the Code entered into force in 1984. The Code's objectives are twofold:

a) to increase the efficiency of maritime transport in the international trade of developing countries by improving the liner conference system; and

b) to increase the participation of developing countries in the liner trade.

5.4.2 For most countries that participated in the formulation of the Code, it was thought that regulations, as per the Code were needed to effect changes in the liner conferences. Some of the changes envisioned were:

a) the removal of power to arbitrarily decide the
admission of new lines;

b) provisions for the allocation of cargoes within the conferences should take place on an internationally agreed basis rather than through the private arrangements which traditionally determined shares;

c) bringing into the open the levels of freight rates and the processes of conferences in determining such rates;

d) restricting the power to make unilateral decisions on matters affecting the trade and economic interests of developing countries; and

e) establishing an independent tribunal to which parties with complaints about the operation of the conference system could have recourse.

5.4.3 Some of the major provisions of the Code are:

a) the cargo sharing formula of 40:40:20;

b) providing for prior consultations with the National Shippers' Council on any changes in conference freight rates, including surcharges, BAF and CAF;

c) providing for automatic memberships of and participation by the national shipping lines of countries whose foreign trade is covered
by the conference; and

d) providing for prior consent of national shipping lines to any major policy decisions taken by the conference which may affect them, seeking to ensure that national shipping lines have participated fully in all such decision making processes.

5.4.4 The Code however, faced several implementation problems brought about by its own inherent weakness and new developments in the conference systems. The Review Conference of 1988 and 1991 has addressed some of these problems but it is still yet to be seen how successfully the Code will be implemented in the future.

5.4.5 The ratification of the Code by Malaysia will in due course change and influence the Malaysian shipping industry as far as liner trade is concerned. The implementation aspects of the Code are being actively considered by the Ministry of International Trade and Industry (MITI) jointly with the Ministry of Transport, with MITI taking the lead role. Due to institutional weaknesses, progress in this regard is still slow and it will be quite sometime before the Code's implementation can be carried out in Malaysia.
CHAPTER 6. ADMINISTRATIVE FACTORS RELATED TO SHIPPING.

6.1 ROLES AND FUNCTIONS OF MARITIME ADMINISTRATION.

6.1.1 The objective of a maritime administration organisation, within the framework of a country's overall maritime activities, is to provide the government with the machinery which enables it to satisfactorily and efficiently undertake those functions which are embodied within the country's merchant shipping legislation (national maritime laws). These functions include the implementation of the requirements of international maritime conventions and national rules and regulations framed under the authority of the merchant shipping act.

6.1.2 In pursuing its activities in the development of the maritime field, the appropriate government authorities would, therefore, need to have an efficient administrative machinery. Such an efficient administrative machinery is essential to advise them on the adoption and implementation of the national legislations and other regulations required for developing and operating the maritime programme of their country, and for discharging the obligation of the government under international conventions which may be applicable. This machinery can best be provided through a well-organised maritime administration as mentioned before. Such an administration will also be responsible, under the general direction of the ministry responsible: for transport; for providing and organising the appropriate facilities; for the survey and certification of ships; and the training, examination and certification of ship's masters, engineers and other
maritime personnel.

6.1.3 As a whole, the areas affected within the ambit of maritime administration activities are the ownership, registrations, management operations, upkeep and maintainence of national shipping fleets and also other related maritime activities such as shipbuilding and maritime training.

6.1.4 The operational aspects of maritime administration within the context of safety of life at sea take the form of:

a) general superintendence and coordination;

b) registration of ships and related functions;

c) surveys, inspection and certification of ships;

d) port state control of foreign ships;

e) inspections and detention of unseaworthy ships;

f) the conducting of examinations leading to and the issuance of the appropriate certificates to various seafaring personnel;

g) manning of ships;

h) casualty investigation;
i) prevention and control/response to marine pollution;

j) crew matters;

k) registration of seamen;

l) disposal of wrecks;

m) adoption and implementation of international conventions; and

n) advice to government on maritime matters.

6.1.5 The major conventions and other instruments adopted by or under the auspices of IMO, would have to be given due consideration for possible implementation in the future.

6.2 EXISTING MARITIME ADMINISTRATION OF MALAYSIA.

6.2.1 As mentioned earlier, one of Malaysia's major weaknesses is her lack of an organisation solely responsible for providing the leadership and administrative services to the shipping industry. There are at least 20 government agencies which are responsible for certain sectors of the industry. This institutional weakness has resulted in improper management of the shipping industry in the country since the present maritime administration does not have an organised and thus, an effective approach to the development and operation of the industry. The
present situation can be attributed to history, and although vast changes have occurred in the maritime sector since Malaysia's independence in 1957, little or no changes in the approach to administer this industry have taken place. For example, MISC and PNSL, the formulation of which implemented government policy on shipping, are under the purview of the Prime Minister's Department (ICU), a department which was set up with the main objective of monitoring and coordinating the national development programme. Prior to 1975 when MISC and PNSL came under its purview, ICU's involvement in shipping was virtually non-existent.

6.2.2 Then we have the Malaysian Maritime Academy (ALAM) which is again under the ICU by virtue of the fact that the Academy is partially funded by MISC through the Maritime Training and Education Foundation (MATES) and ICU has assumed responsibility for the development and operation of ALAM. We have also the MITI which is responsible for the implementation aspects of the Code of Conduct and has the Freight Study Unit under its wing. The Malaysian National Shippers' Council (MNSC) has its secretariat in the Freight Study Unit.

6.2.3 The Ministry of Finance, which exercises overall budgeting and financial control over all government agencies, involved in maritime matters with respect to development loans and grants to port authorities, the guaranteeing of loans to MISC and PNSL, the equity participation in MISC and PNSL, federal investment in shipyards (such as MSE), incentives to the shipping
industry and the approval/control over annual budgets for the MOT and the Marine Department. The Ministry of Finance is also involved in the formulation of policies to promote greater utilization of some of these agencies, and the utilization of MISC, PNSL and other Malaysian vessels.

6.2.4 In the meantime, the Ministry of Transport is responsible for the development and regulation of, among others, the sector of sea transportation. For the maritime sector the Maritime Division is responsible for the planning, development and execution of all legislation, policies and programs. The Maritime Division is made up of 4 Units, namely the Ports, Maritime safety, Shipping and the Secretariat of the DSLB. Appendix 1 is the organisational set up of the Maritime Division which has had the responsibility for most of the programs of the national shipping industry since its formation in 1982.

6.2.5 The Marine Department is the body responsible for the safety aspects of the industry i.e. the implementation of the regulatory (and allied) functions embodied in the Malaysian Merchant Shipping Ordinance of 1952 which is the basic law for control of all merchant shipping activities in Malaysia. There are three Departments at the moment (Peninsular Malaysia, Sabah and Sarawak) which were established during colonial times and continue to operate unchanged. The Ministry of Transport has taken the initiative to merge all three Departments to make them more efficient and to smooth coordination as far as possible. The Marine Departments have responsibility for pilotage, supervision of ship construction, charts and hydrographic
surveys, navigational aids, certification of seafarers, licensing and registration of vessels, surveys and certification on Malaysian ships, among other duties. The Departments have also being delegated by the Ministry of Science, Technology and Environment for the regulation of marine pollution from vessel based sources.

6.2.6 This institutional weakness in the administration of the maritime industry in Malaysia is further compounded by the lack of expertise that exists in the various agencies. The problem is aggravated even further by the amount of duplication that often happens. In the performance of duties by these various agencies a lot of grey areas have emerged due to the overlapping of functions. This sometimes leads to dissipation of all efforts. In addition, it is common to find that one agency formulates plans which sometimes contradict policies that have been passed by another agency.

6.2.7 The lack of expertise and staff in the Ministry of Transport has focused the attention of the maritime industry since the objectives of the Maritime Division, and the needs and well being of the industry, are seldom met or properly considered. The present system of staffing the Division and the practise of transferring officers has further compounded this issue causing disruption whenever an experienced officer is transferred. Replacement by a new officer requires a lengthy process of training to learn the trade and therefore affects the efficient running and the management of the industry.
6.2.8 Thus there is a need for some form of reorganisation of the maritime administration in Malaysia. Centralization of the various responsibilities and activities as far as possible and wherever applicable would rationalise and group together the limited numbers of experts existing in the maritime field. With regards to the development of the shipping industry, the existence of a well organised administration apparatus to look after the administrative aspects and problems of the merchant marine industry, and the whole spectrum of maritime field, is considered to be vital.

6.3 RATIONALISATION AND INTEGRATION OF THE MARITIME ADMINISTRATION IN MALAYSIA.

6.3.1 A maritime administration of a country should be tailored to the local conditions, stage of development of the maritime industry, availability of skilled staff or manpower, and the size and structure of the national fleet. Rationalisation and integration in the case of Malaysia would have to take into account these various factors and the other institutional arrangements that exist. Many countries however, have reorganised their maritime administration solely for the purpose of enhancing the maritime development of their countries. Effective development of the maritime sector is directly dependent on the capabilities of the maritime administration especially in a developing country. Yet still, there are some countries which have been able, with the passage of time, to adapt their maritime administration to the needs of the industry successfully enhancing the performance.
6.3.2 The rationalisation and integration of the Malaysian maritime administration could further enhance its credibility, effectiveness and performance, by grouping together the limited amount of expertise currently available. It should also have the benefit of ensuring that decisions, as well as actions, will have greater effect and coordinated as inter-department rivalry, interference and grey areas are reduced. These problems represent exactly the stumbling block that has precluded the efficient development of the maritime industry in Malaysia in particular, and in developing countries in general.

6.3.3 Rationalisation and integration should take the form of bringing all the diverse responsibilities that are now spread throughout so many agencies under the singular auspices of the Ministry of Transport. This will require a bigger organisation than the present Maritime Division which is only a small division with just 14 officers. But, the Maritime Division can form the core of the new organisation. This action requires the identification of the various responsibilities and activities which must be taken over by the new organisation. To do this requires the definition and identification the primary objectives and responsibilities of the administration. In general the primary objective of a maritime administration must be both developmental and regulatory where the developmental functions and the regulatory functions both contribute to the development of economic advantages.

6.3.4 The developmental functions of a rationalised and integrated organisation must consider:
a) manpower needs of the industry;

b) port matters;

c) shipping matters, e.g., shipping fleet;

d) research and studies;

e) legal framework;

f) fiscal policies;

g) bilateral and multilateral agreements and conventions;

h) other ancillary services;

i) shipbuilding and shiprepair;

j) promotional issues; and

k) welfare of seamen.

6.3.5 The regulatory functions, on the other hand must consider:

a) safety of life, ships and property;

b) protection of the marine environment;

c) casualty investigation, SAR and salvage;
d) enforcement of rules and regulations;

e) hydrography and charts; and

f) registration and licensing.

6.3.6 By looking at some of the proposed roles of a new organisation, it certainly means that some departments must be incorporated into the new organisation, meaning some other departments or ministries will lose authority over those matters once they have been transferred to the new organisation.

6.3.7 The economic advantages of such rationalisation and integration are quite obvious. For example, an efficient maritime administration will ensure timely actions, which in the shipping world are crucial. Money is lost when delays are experienced. The grouping of a limited number of experts means greater efficiency, through better utilization of scarce expertise, and the savings of foreign exchange through utilization of less outside experts or assistance, if any. Such an organisation should also ensure better coordination and response in the case of a threat to the national marine environment. While such a benefit is clearly not quantifiable, lessons learned from pollution disasters around the world, indicate that this can have significant effects on the national economy as it relates to tourist income. Policy wise, any plans or actions should become better coordinated and decisions should be reached far more quickly than with the present system which involves so many agencies. To a certain
degree, the rationalisation and integration of the maritime administration should also avoid needless duplication of work which currently results from the existence of grey areas. To a large degree, such a rationalisation and integration of the maritime administration should provide a cost effective way of running and developing the maritime industry of Malaysia.
CHAPTER 7. EVALUATION AND CONCLUSION.

7.1 EVALUATION AND CONCLUSION.

7.1.1 Sea transport is an integral part of the production process and therefore has a direct bearing on a country's economy and development. A nation depends fundamentally on the movement of the goods it produces and those it receives in exchange from other countries. This dependence is felt in all the varied activities that characterize a nation's life in its social, economic and political realms. Shipping therefore, is a primary concern to a country, particularly a developing country. Thus, a country's decision to invest in shipping can be traced from its desire accrue the economic benefits associated with fleet ownership. Those benefits are:

a) the savings of foreign exchange, based on the conviction that national shipping has a considerable and favourable impact on a nation's balance of payments (by earning foreign exchange or by reducing the flow of foreign exchange for foreign payments);

b) the promotion of a country's trade and economy through the lowering of freight rates and the securing of shipping services;

c) a linkage between maritime industry and the rest of the economy which can lead to economic diversification and development;

d) economic integration and independence;
e) industrial integration; and

f) creation of employment.

7.1.2 In the context of Malaysia, her stated aim of achieving the status of a "maritime nation" can be traced to her concern primarily with those benefits mentioned above. Here an evaluation will be made with regards to Malaysia's desire to develop her merchant fleet and its significant role in the promotion and growth of the national economy.

7.1.3 Malaysia's almost total dependence on foreign shipping has led her to a serious balance of payments position. Over the past years, this adverse condition has worsened and it continues to be a major concern of the government. This was the main reason for the establishment of the national fleet in the late 1960's. The situation of the adverse balance of payments position can be traced to the nature of Malaysia's trade, having an elastic supply of export and elastic demand for imports. The formation of MISC and PNSL by the government and the formation of other Malaysian lines through private sector involvement was intended to address this problem. Although MISC's involvement in the carriage of the national trade is minimal and falls short of one of the objectives for its formation (i.e. more participation of the national fleet in the carriage of the national foreign trade in order to reduce dependence on foreign shipping which in turn leads to foreign exchange outflows) its major involvement in the cross-trades has helped the country to earn foreign
exchange which has been estimated to be 20 to 25% of freight revenue in terms of net foreign exchange gained. The same can be expected of PNSL and other Malaysian lines where the results in terms of net foreign exchange gained, will be positive.

7.1.4 The Domestic Shipping policy has been one of the major steps taken by the government in order to reduce the outflow of invisibles in the form of freight and insurance payments. It has been successful because the engagement of national lines in domestic shipping with the localised operation has resulted in the larger retention of foreign exchange, while very little outflows occurs in the form of capital and possibly shiprepair too. Further efforts have been made in support of fleet development. Many measures have been explored and implemented to provide impetus for growth of the Malaysian shipping registry: tax and financial incentives; cargo reservation; the policy of encouraging Malaysian importers and exporters to sell CIF and buy FOB; the setting up of the MFBC (presently disbanded); the Malaysian National Shippers' Council (MNSC) active participation in the promotion of trade and transport; and industrialisation and diversification programmes designed to reduce the inelasticity supply of Malaysian exports and elastic demands for imports, to mentioned just the major ones.

7.1.5 Ancillary services have been upgraded wherever possible by the government and continue to be the focus of attention to provide the necessary support to the national shipping fleet. Ports are being privatized and expanded to
increase their efficiency and competitiveness. The increased cargo throughput of Malaysian ports in the past, and the expected excellent growth in the future, testifies to Malaysia's concern and dedication to develop and expand her economy. This is shown by the fact that Malaysia's GDP was 10% for the year 1990, one of the highest in the world. This also testifies to the success of Malaysia's policy of encouraging the flow of her goods through Malaysian ports, which in the past were transported in significant volume through the Port of Singapore. Malaysia's ongoing privatization program for the ports has enabled the building of expertise and raised the level of efficiency, all of which will be essential to accommodate the expected tremendous growth in cargo throughput in the coming years. This is anticipated to provide continued for the national lines and should result in increasingly more active participation by the national lines in the direct carriage of Malaysia's trade.

7.1.6 The shipbuilding and shiprepair industry have been rationalised and undergone structural changes in order to be more efficient and competitive. The paramount interest in this industry, which plays a significant role in the retention of foreign exchange (and possibly in the future earning of more foreign exchange) as ships are built and repaired locally is clearly visible by the formation of the Shipbuilding and Shiprepairing Task Force under the Industrial Master Plan program to look into the condition of the industry and to find ways and means to assist and develop the industry further. Other minor but important supporting services which suffer from the lack of experience, finance and expertise have been urged to be
more professional in their activities and necessary support for such services are being evaluated.

7.1.7 Malaysia's young maritime tradition has been one of the reasons for the lack of seagoing personnel, especially noticeable in the number of trained officers available to man her merchant fleet, which has been one of the targets of the government. Further investment in shipping may increase employment opportunities both onboard and onshore, however, it may not be the most preferable field of investment in any country whose primary objective is the creation of employment by looking at the capital intensiveness of the investment. Malaysia therefore needs to examine this aspect further. Malaysia's small fleet may not have a significant impact on overall employment opportunities, but this issue becomes important when the whole maritime industry is viewed together.

7.1.8 Structural problems are a common denominator where developing countries are concerned. Malaysia's maritime administration is in need of rationalisation and integration. The present methods of multi-agencies involvement has resulted in a segmented and uncoordinated approach to reaching the country's objective of achieving the status of a 'maritime nation'. In order to redress the many problems and challenges of the industry and to benefit from past and future investments, centralisation of the dispersed roles and functions of the various agencies must take place. This will allow management of the maritime industry by a rationalised administration, providing less duplication of efforts and less wasting of limited
expertise and public funds. Such rationalisation and integration can also lead the way to a more comprehensive and coordinated approach to any problem that the Malaysian shipping industry might face. Such an administration can act as a catalyst and coordinator, taking the lead role for all tasks which should be performed in tandem with the other related agencies. This will then provide the impetus for the formulation of a shipping policy for Malaysia that will allow her to achieve the enunciated status of a "maritime nation".

7.1.9 Finally, the Malaysian shipping industry is still in its infancy. Its participation in international shipping as a carrier of its foreign trade is minimal. It carries only an estimated 6 to 10% of the country's international seaborne trade and yet, through its involvement in other foreign trade, it contributes positively to the economic development of the country. In this regard, there is room for significant improvement in development and expansion of the Malaysian shipping industry. Its potential for contribution to promotion of Malaysia's foreign trade and the economy at large is quite real and proven. But, the extent to which this potential can be realized will depend on a rationalized and integrated approach to providing the necessary stimuli for the maritime industry.
ORGANIZATIONAL CHART OF THE MARITIME DIVISION
MINISTRY OF TRANSPORT
MALAYSIA

MINISTER OF TRANSPORT:

SECRETARY-GENERAL:

DEPUTY SEC-GEN:  
(OPERATIONAL):

DEPUTY SEC-GEN:  
(PLANNING):

MARITIME SAFETY:  
SHIPPING:  
PORTS:  
DSLB:

DSLB: DOMESTIC SHIPPING LICENSING BOARD
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