MARITIME INSTITUTE OF MALAYSIA
INSTITUT MARITIM MALAYSIA

SEA VIEWS

MIMA'S ONLINE COMMENTARY ON MARITIME ISSUES

No. 1/2011 **18 January 2011**

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Rising to the occasion

Nazery Khalid, MIMA Senior Fellow predicts a challenging year ahead for container port operators in Malaysia but is guardedly optimistic that they can record growth in volumes handled

When the going gets tough …

The announcement by Minister of Transport, Dato' Seri Chong Kong Ha on 11 January 2011 that Malaysian ports handled a total of 18.4 mil. TEU in 2010 should bring a smile to port operators in the country.

This commendable figure was a 14.8% increase from the 16.04 mil. TEU of total container throughput recorded by local ports in 2009.

The port operators will smile even wider if they can attain the 7% year-on-year growth in total throughput in 2011 projected by the Minister. His confidence of an even better year for local ports is not misplaced : economic indicators point to decent growth for Malaysia's trade and economy this year, in line with improving global economic sentiment. World Trade

Organization projected global trade to grow 13.5% this year, compared to its earlier growth forecast of 10%.

Needless to say, the throughput volume recorded by Malaysian ports in 2010 pales in comparison to the performance of world's top container ports (Shanghai Port handled 29.05 mil. TEU last year, while Singapore Port did 28.4 mil. TEU). Nevertheless, the achievement of local ports was nothing to scoff at, considering the tough operating environment last year.

The growth was achieved on the back of a challenging 2010 during which the global economy showed tentative signs of recovery from the crunching impact of what has been termed by many economists as the worst recession since the Great Depression in the 1920s. Although global trade, much of which is transported through seaborne means, rebounded last year, volumes were still far off from post-recession levels, and the recovery in the container trade was at best mediocre.

Container ports as crucial trade facilitators

Container ports have ceased to become entities where boxes are merely loaded and unloaded. They now assume a pivotal role as a critical node that facilitates much of global trade and are linked to other transport modes and trade infrastructures.

Today's port users demand sophisticated services to match the growing complexity of the maritime trade supply chain, the global nature of production and consumption, and the extensive reach of seaborne trade. Specialized services such as cold chain logistics, *halal* logistics, free zone and distripark services are coveted by port users who are increasingly spoilt for choice amid rapid upgrading and development by container ports keen to woo customers. This is especially the case in the East Asian region which generates a lion's share of global trade volumes and where intra-regional container trade is booming.

In line with this, local ports must strive to provide a wide range of services and high levels of service to their customers. Their operators must improve turnaround time, provide adequate capacity, and maintain decent levels of productivity and efficiency even in lean times. This is crucial in retaining loyalty and winning new business, as competition to attract shipping lines and shippers among ports, particularly in this region, becomes very keen.

To do this, port operators must invest in significant amount of capital expenditure to provide the necessary features such as deep drafts and adequate berths for ships and containers; equipment such as cranes and stackers; state-of-the-art IT systems and well-trained manpower. This is going to prove challenging amid uncertainties of the near-term prospects of global trade and economy, and shaky financial markets. Industries will find it challenging to raise capital in these trying times; even more so for entities involved capital intensive business such as container ports.

The Malaysian Government is also expected to continue to play a significant role in enhancing the competitiveness of local ports. Underscoring its commitment, the Government has set aside

RM1 bil. for dredging of port channels in the Tenth Malaysia Plan to enable the ports to cater to bigger vessels and maintain their competitiveness against other container ports in the region.

For a country like Malaysia whose trade competitiveness is highly dependent on the shipping sector, its ports must go out of its way to attract main line operators (MLOs) which operate big container vessels. Such vessels not only provide huge revenues to the ports but also enable the country's exports to reach their intended markets worldwide, given the absence of local players servicing the container trade on a scale and extent of the MLOs.

In these challenging times, port operators should not just rest on their laurels but to continue enhancing their productivity and efficiency, particularly to reduce turnaround time for their users and facilitate the smooth flow of containers. In a business which attaining speed and efficiency are the mantra, ports that can deliver on these fronts will have a competitive edge over their rivals. They also have to be cost-competitive as shipping companies and shippers in the region have a wide array of ports offering quality services at competitive rates to choose from.

That said, there is only so much that ports can do on their own to attract business. Port services are essentially demand-derived, in the sense that they are driven by the demand of the cargos they facilitate. Hence, the performance of container ports, as trade facilitators, hinges on the performance of trade. Trade, in turn, is driven by a multitude of factors including the economy, production, outsourcing, business activities, consumer behaviors, fiscal policies, transport linkages, logistics and even geo-politics, among others. As such, container ports will be inevitably 'dancing to the tunes' coming out from these areas which are influential to the trade landscape.

Outlook for 2011

For 2011, the outlook for the seaborne container trade is one of guarded optimism. There appears to be a silver lining on the otherwise gloomy horizon, in the form of better performance in 2010 compared to the previous year, and the budding trade and economic recovery from the global downturn. However, several negative variables threaten to cloud the sunny outlook of the performance of this important trade.

For a start, being a trade dependent country, Malaysia will be subjected to the economic performance of countries it trades with. The economic woes of the US, a key trade partner, does not look like they are about to go away completely anytime soon. The Eurozone crisis might add to the gloom and China's efforts to ease economic growth to prevent overheating could also have an adverse effect to Malaysia's trade and ports' performance in the near term. Quantitative easing measures by several major trading countries may also dampen a sharp rebound in global economic and trade growth, and this will obviously have a telling effect on Malaysia.

Despite the fact that Malaysia's economy emerged largely unscathed from the global recession, recently released domestic figures suggest that we are not immune to the devastating effects of the downturn. Malaysia's exports in October 2010 slumped to an 11-month low, with a mere 1.3% growth recorded year-on-year, despite the economy posting a strong growth of 8.1% in the first three quarters of 2010. Also, the specter of huge new tonnage coming into shipping trades such as container and bulk will also add downward pressure to freight rates. It would be unlikely that these vessels would be able to find demand for such cargoes to be able to match the supply of the vessels carrying them. This certainly will cause our container port operators some sleepless nights and test their mettle to generate higher throughput than in 2010.

However, it should not be all doom and gloom. The 10th Malaysia Plan is set to generate economic activities and investments that might help boost trade and hence container trade volumes. The RM67 bil. worth of investments and RM36 bil. in gross national income expected to be generated by the Entry-Point-Projects (EPP) under the Economic Transformation Programme (ETP) are set to generate plenty of economic activities that will provide spark for the nation's trade in general and container throughput at local ports in particular.

In addition, Malaysia's low employment rate, rising disposal income, and steady increase in both public and private consumption expenditure should also bode well for seaborne container trade in 2011. As more goods are containerized and demand for these goods increase, volumes of domestic cargos and transshipment handled at container ports should show growth. In the oil and gas sector (O&G), Petronas is expected to remain active, especially in the deepwater sector, and several fields especially in deep water coming on-stream will generate plenty of activities for players in the O&G industry which include owners of offshore supply vessels (OSV). This should also result in positive multiplier effects to other supporting sectors such as shipbuilding and ship repairing; maritime financing and ship management, among many others.

Local ports would do well to focus on winning bigger market share in several areas of growth and high-margins in the container trade. These include the transshipment trade generated by the ever-growing intra-ASEAN and intra-Asian trade. Major container ports can create differentiation by focusing on specialized trade such as the *halal* trade, which features many types of containerized cargos. Port Klang, the national load center, can leverage on its strength in this area by further beefing up its capacity and handling capability to handle more *halal* cargos. PTP, the nation's transshipment hub port, can certainly handle bigger throughput volumes given the potential for further development of its greenfield sites.

By the look of it, 2011 will be another challenging year for Malaysia's container port operators, but with challenges come opportunities. The ingredients are in place for them to achieve another year of growth but they will have to roll up their sleeves to meet the challenges of the operating environment and capitalize on the opportunities.

Tough times, as the saying goes, don't last, but tough people do!