

IMPORTANCE OF THE STRAITS OF MALACCA TO THE GLOBAL ECONOMY

By

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Importance of the Malacca Straits

- For Malaysia - front courtyard of country
- For Singapore - lifeline of its economy
- For Indonesia - the throat of the nation
- For Southeast Asia – the conduit into the body of the region
- Great strategic, socio-cultural, economic and environmental value

ZHENG HE VOYAGES

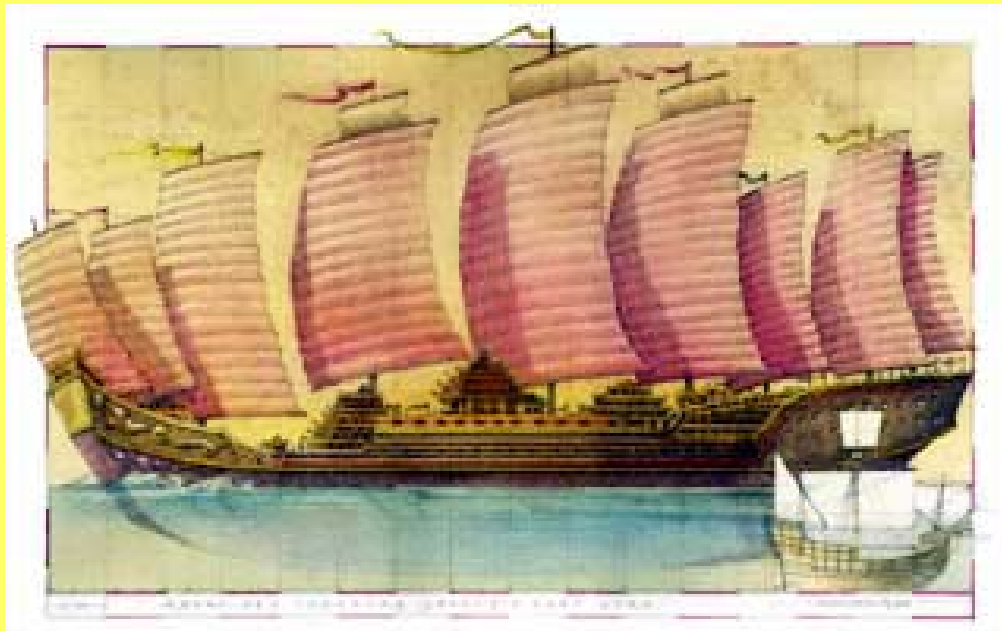
MING CHINA 1368 - 1644

- 1368 Ming dynasty est. at Nanking
- 1421 Capital moved to Peking
- 1522 Mongol incursions and to Japanese sea pirate attacks
- 1566

- China 1400
- China 1644



ZHENG HE VOYAGES



How to Put an Economic Value?

- **Approach I: If the Straits did not exist**
 - Like the opening of the Suez or Panama Canal
 - What would be the value of the Kra Canal?
- **Approach II: If Straits were blocked as in a terrorist attack making it unnavigable**
 - Cost of maintaining the Straits open for navigation
- **Incremental value for shipping through Malacca Straits rather than an alternative route or method**
- **The sum total of the accumulated value to all users from the beginning of time and the stream of values into eternity**

Commercial Shipping

- (1) Carriage of petroleum**
- (2) Movement of containerized cargo**
- (3) Other ship types carrying valuable cargo**
- (4) Port operation dependent on the Straits**

Major Oil Producing Countries (mil. tonnes)

Country	1990	1995	2000	2002
Saudi Arabia	322	400	441	407
CIS (former USSR)	569	349	323	378
US	415	402	354	350
Mexico	148	153	172	179
Iran	157	180	187	171
PR China	138	149	162	170

Oil Reserves (000 mil tonnes)

Country	1990	1995	2000	2002
Saudi Arabia	35.2	35.3	35.3	35.4
Canada	0.8	0.7	0.6	24.2
Iraq	13.4	13.4	15.1	15.1
Kuwait	13.1	13.0	13.0	13.0
UAE	12.9	12.9	12.9	12.9
Iran	12.7	12.1	12.3	12.3

Oil Reserves

- **OPEC's share of World total production:**
 - **From about 36% to 65%**

- **OPEC's share of World total reserves:**
 - **Between 75% and just below 80%**

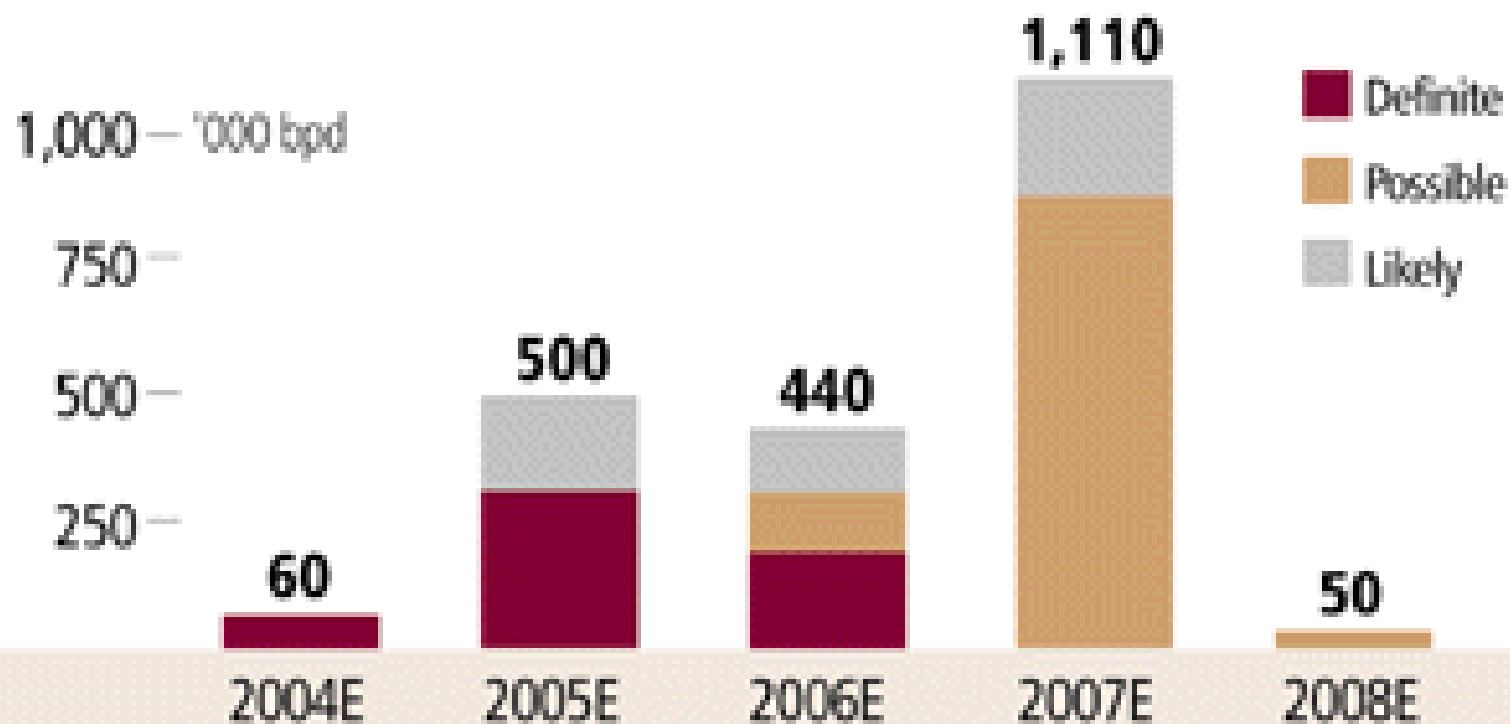
Leading Refining Countries (mil. tonnes)

Country	1990	1995	2000	2002
US	778	768	827	831
GUS (USSR)	615	503	272	272
Japan	219	243	248	238
China, PR	110	143	217	226
Korea	43	62	128	128
Italy	119	114	118	115
Germany	101	105	113	114
India	56	54	106	107

Oil Refineries in Asia

In the pipeline

Asia's new capacity



Source: Oil & Gas Journal, Merrill Lynch

Oil Consuming Countries (mil. tonnes)

Country	1990	1995	2000	2002
US	768	805	888	888
Japan	241	269	255	249
China PR	98	127	220	248
Germany	126	135	129	127
CIS	420	276	124	127
Brazil	59	70	100	100
Korea	43	84	99	99
India	57	72	98	99

China

- **China's GDP has been growing at an average rate of 9 per cent per year and 9.1% last year**
- **In order to fuel the booming industrial sector, import of oil has been rising rapidly**
- **China itself has considerable oil reserves but production cannot keep pace with demand**
- **Between 1990 and 2002, imports of oil has increased by 150 per cent**
- **60% of oil imports from ME and 80% of its imports passes through Malacca Straits**
- **20% of oil comes from SE Asia, Russia, and other Central Asian states incl. Kazakhstan**

Importance of Malacca Straits to China

- China imported 91.12 mil tons of crude oil and 28.24 mil tons of refined oil in 2003, up 31.3% and 38.8% over the previous year
- Cost of imports came to US\$16.5 bil in 2003
- China has been experiencing serious energy shortages in the last year
- Import from Russia has been disrupted by the Yukos problem involving 100,000 bbl/day of supplies
- China willing to pay for cost of transport by road and rail transport at an uneconomic rate for oil
- Negotiations with the Russian government for an oil pipeline has not gone smoothly

Export-import matrix for Oil Trade, 2001 (mt)

From/to	NW Eur	Med.	N. Amer	S. Amer	Japan	Others
ME Gulf	62.9	45.6	134.7	11.0	184.6	344.3
Near East	6.4	35.3	11.5	2.0	--	1.3
N. Africa	9.7	62.7	5.3	4.2	--	4.4
W. Africa	10.4	31.9	74.1	9.8	2.1	42.2
Caribbean	7.8	10.6	179.3	18.2	1.3	6.3
SE Asia	--	--	7.1	--	17.9	36.0
Others	45.7	60.6	65.1	13.6	2.2	24.3
Total	142.9	246.7	477.1	58.8	208.1	458.8

Type and Number of Vessels Reported at VTS, Klang, August 2003

Type	No.	Type	No.
VLCCs	289	Passenger	199
Oil tankers	1,300	Livestock	262
LNG/LPG	297	Tug/tow	6
Cargo	537	Gov/naval	43
Container	513	Fishing	20
Bulk carrier	1,659	Others	3
Roro/car	552	Total	5,470

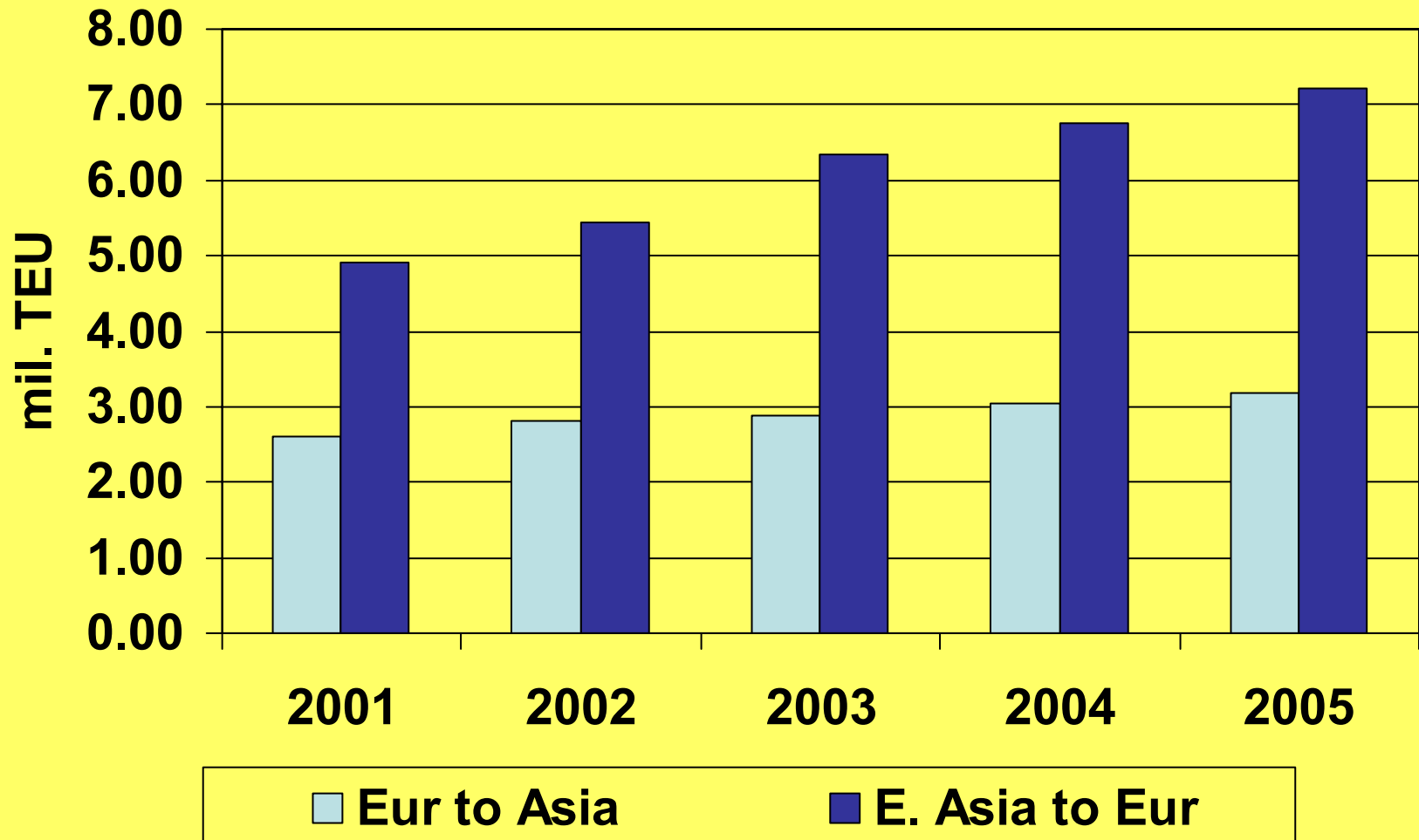
Total Vessels Reported, 2000-2003

	2000	2001	2002
VLCC	3,163	3,303	3,301
Tanker	13,343	14,276	14,591
LNG/LPG	2,962	3,086	3,141
Gen Cargo	6,603	6,476	6,605
Container	18,283	20,101	20,091
Bulk carr.	4,708	5,370	5,754
Roro/car	1,761	1,764	1,980
Others	4,306	4,084	4,169
Total	54,301	57,596	58,150

Vessel Traffic through Malacca Straits

Year	No. of Vessels
1999	43,965
2000	55,957
2001	59,314
2002	60,034
2003	62,320

Europe and E Asia Flow of Containers (TEUs)



E-W Containerized Cargo Flow

- Booming westbound trade from Asia to Europe
- Far East Freight Conference (FEFC) controls 65% of all cellular vessel capacity between Asia and Europe
- Increase from 2002 due to the China effect
- Westbound trade is expected to continue to grow rapidly

Container Throughput of Selected Southeast Asian Ports, 2002

Port	Million TEUs
Singapore	16.80
Port Klang	4.53
Tanjong Priok	2.68
Tanjong Pelepas	2.66
Laem Chabang	2.65

Singapore

- Singapore's economy growing erratically since the Asian financial crisis
- Manufacturing sector accounts for around 23% of GDP
- Major industries: electronics, oil refining and related industries, chemicals with emphasis on high-tech, high value-added and export-oriented industries
- Oil refining capacity over 1mil bl/day with 15% of refined products consumed locally
- Major shipping hub and World's second largest container terminal after HK. Around 90% of cargo is transshipped mainly through Malacca Straits to/from the West
- Major international shipping companies operate in Singapore with full range of marine services

Who Benefits from Using Malacca Straits?

- **Who owns the ships?**
 - Country of registration – local/foreign owner
 - Beneficial ownership – flags of convenience
 - Many ships are chartered – NVOCCs
 - Banks and insurance companies
 - Shipmanagement companies
- **Who owns the cargo?**
 - Depends on shipping contract
 - Insurance companies and banks
- **Who mans the ship?**
- **Many other beneficiaries arising from shipping activities**

Concluding Remarks

- Littoral states are main beneficiaries but depends on how opportunities are used
- In a globalized world that is fast moving towards liberalization and free trade, the use of the Straits will increase and eventually reach saturation
- Asia will take the lead over Western developed regions with Japan, NIEs, China and now India booming in succession
- Need to dissect the economic benefits not only by country but by interest groups
- The task is no easy one but should be tackled