Shipping as a crucial facilitator of trade

The tremendous growth of shipping activities in Malaysia over the years underlines the value of the maritime sector to its economic well-being and the importance of the seas to the lives of its people. Malaysia has emerged as a leading maritime nation in terms of merchant shipping capacity.\(^2\) Demand for shipping services in the country is rising fast, in tandem with its growing trade. Malaysia is now in the league of the largest exporting nations in the world, recording a total trade of RM1.069 trillion in 2007 (see Table 1).\(^3\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Import</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>220.89</td>
<td>220.94</td>
<td>441.83</td>
</tr>
<tr>
<td>1998</td>
<td>286.56</td>
<td>228.12</td>
<td>514.68</td>
</tr>
<tr>
<td>1999</td>
<td>321.56</td>
<td>248.48</td>
<td>570.04</td>
</tr>
<tr>
<td>2000</td>
<td>373.27</td>
<td>311.46</td>
<td>684.73</td>
</tr>
<tr>
<td>2001</td>
<td>334.28</td>
<td>280.23</td>
<td>614.51</td>
</tr>
<tr>
<td>2002</td>
<td>357.43</td>
<td>303.09</td>
<td>660.52</td>
</tr>
<tr>
<td>2003</td>
<td>397.88</td>
<td>316.54</td>
<td>714.42</td>
</tr>
<tr>
<td>2004</td>
<td>480.74</td>
<td>400.08</td>
<td>880.82</td>
</tr>
<tr>
<td>2005</td>
<td>533.79</td>
<td>434.01</td>
<td>967.80</td>
</tr>
<tr>
<td>2006</td>
<td>588.95</td>
<td>480.49</td>
<td>1,069.44</td>
</tr>
<tr>
<td>2007</td>
<td>605.10</td>
<td>504.57</td>
<td>1,109.67</td>
</tr>
</tbody>
</table>

Source: Malaysian External Trade Development Corporation

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\(^2\) United Nations Conference on Trade and Development (UNCTAD) ranked Malaysia 18th in a list of 35 most important maritime countries and territories as of 1 January 2006 in terms of deadweight tonnage (DWT) of its merchant vessels (including national and foreign flagged). As of that date, Malaysia had 325 merchant vessels with a total tonnage of 9.6 million DWT, contributing 1.06% to the global DWT capacity.

\(^3\) World Trade Organization (2005).
The phenomenal growth in global trade in recent decades has had a huge impact in the development of the maritime infrastructure in Malaysia to support its increasing trade with the world’s nations. The shipping sector has especially benefited tremendously from the nation’s trade boom. Underlining the maritime sector’s importance to the nation, an estimated 95% of Malaysia’s international trade are transported by ocean-going vessels.\textsuperscript{4} Shipping is therefore a vital facilitator of Malaysia’s trade, hence crucial to its economic prosperity.

Despite these, it has been a matter of concern for the Government and stakeholders in the local shipping industry that the level of national tonnage leaves much to be desired. There is a mismatch between growing demand for shipping services in the country and its increasing volume of maritime trade with the available capacity of local tonnage. An estimated 85% of the nation’s international trade is carried in whole or part by foreign-flagged ships, causing a huge outflow of payments for foreign shipping services.\textsuperscript{5}

This situation inevitably puts the spotlight on the adequacy of the shipbuilding sector to provide the tonnage to support the nation’s ever-growing trade volumes. The shipbuilding industry has been identified as a crucial sector to support the development of the country’s shipping sector and the growth of its trade. Given that Malaysia has set an ambitious target to achieve long-term industrial competitiveness on a global basis through the transformation and innovation of its manufacturing and services sectors, industries such as shipbuilding must come to the fore to help the country to attain global competitiveness.

\textbf{The shipbuilding industry in Malaysia}

The shipbuilding industry is a crucial industry that provides the backbone for the development of merchant shipping in Malaysia. It is one of the core sectors in the marine transportation sector in the country and provides a platform on which skills in various activities such as naval architecture, engineering, metallurgy, machining, corrosion control, welding and fabrication are developed. The shipbuilding industry also has extensive linkages with many other industries such as steel, glass, logistics, storage, bulk-breaking of goods, and services such as port services, financing, insurance and consultancy.

Testimony to its importance, the shipbuilding industry has been identified by the Third Industrial Master Plan 2006-2020 (IMP3) as a strategic industry. The industry is also an important source of employment and economic earner for Malaysia, employing 20,250 people in 2005 and contributing RM2.21 bil. to the nation’s export in the same year.\textsuperscript{6} Between 1996 and 2005, the sector recorded an average growth rate of 10.1% per annum, evidencing the expansion in the sector and, indirectly, the growth in the local shipping sector.\textsuperscript{7}

\textsuperscript{6} Third Industrial Master Plan 2006-2020
\textsuperscript{7} Ibid.
There are around 70 shipyards in Malaysia which are engaged in the following activities:

- construction of ocean-going vessels, tug boats, patrol vessels, supply vessels, fishing vessels, tug boats, landing crafts, passenger ferries and boats, small tankers and leisure crafts
- construction of offshore structures for the oil and gas industries
- ship repairing, maintenance, upgrading, overhauling and refurbishing of vessels
- conversion of ships
- heavy engineering
- fabrication of offshore structures, steel structures and cranes

There are six shipyards which can be considered as the biggest in Malaysia in terms of capacity in building merchant ships. They are Malaysian Marine Heavy Engineering (MMHE), Boustead, Sabah Shipyards, Ramunia, Sasacom and Muhibbah which are accorded Class A and AA and are registered with the Ministry of Finance Malaysia. MMHE is the nation’s biggest shipyard which is a wholly-owned subsidiary of MISC Bhd, the national shipping line. Focusing on servicing the oil and gas sector and related industries, it has can accommodate the drydocking of vessels of up to 450,000 DWT and has a shiplift system capable of handling ships up to 50,000 DWT. It is also capable of designing, fabricating, installing and commissioning such as Floating Production Storage Offloading (FPSO) vessels and Floating Storage Offloading (FSO) vessels. Reputable yards and fabricators such as Coastal Contracts, Kencana Petroleum, Boustead Heavy Industries Corp and Oilcorp are capable of providing high-end products and services for the oil and gas sector and building high-tech vessels such as patrol vessels and offshore supply vessels. However, local orders for larger and more sophisticated naval vessels are still placed with foreign shipyards which have the capacity and are technically more adept at building such vessels.

Other shipyards in Malaysia operate on a small-scale basis, building vessels mainly for the local market and for use in the shallow waters. Although the number of shipyards in Malaysia with manufacturing licenses grew from only 21 in 1996 to 56 in 2006, the industry in general is fragmented and the majority of the players are small shipyards which are labor-intensive.8

Government policies and incentives to promote the shipbuilding industry

The Malaysian Government’s commitment in promoting the shipbuilding industry in Malaysia is underlined by the support it provides to develop the sector. These cover promotion, investment, legislation and a host of other efforts to increase shipping activities in Malaysia and to enhance the nation’s maritime prowess. Various policies are in place to ensure that the development of the shipbuilding industry is carried out in an orderly manner.

8 In Malaysia, shipyards are qualified to apply for manufacturing license status with shareholders fund of RM2.5 million.
In Malaysia, shipyards require manufacturing licence under Industrial Coordination Act 1975 as shipbuilding and ship repairing are considered as manufacturing activities. The Act requires manufacturing companies with shareholders’ funds of RM2.5 million and above or engaging 75 or more full-time employees to apply for manufacturing licence. The Government allows 100% foreign equity ownership in shipyards, irrespective of the level of exports of their products, to attract foreign investment in the shipbuilding industry. To further promote the development of the industry, the Government adopts a very liberal policy that allows companies to repatriate profits, dividends and commissions to their home countries.

Underlining the Malaysian Government’s keen support towards the shipbuilding industry is the promotion of the Investments Act 1986 which provides various incentives to players in the industry. These include pioneer status for shipyards located in the Eastern Corridor of Peninsula Malaysia and in Sabah and Sarawak which entitle their operators to be eligible for the following:

- Partial / full relief from payment of income tax
- Exemption of income tax on 70% to 100% of statutory income for 5 years
- Investment Tax Allowance (ITA) i.e. 60%-100% of qualifying capital expenditure incurred within 5 years deducted from statutory income
- Deduction of 70%-100% of statutory income in one year

Vendors in the shipbuilding industry, including small-medium scale industries (SMI), involved in certain promoted products can also apply for pioneer status with tax exemption of 100% statutory income tax for 5 years and an ITA of 100% for 5 years to offset against 100% of their statutory income. Those involved in strategic projects can apply for pioneer status which entitles them to 100% tax exemption of statutory income for 10 years and ITA of 100% on qualifying capital incurred within 5 years.

The Government also offers various attractive financial incentives to shipbuilders under the Customs Act 1967 and the Sales Tax Act 1972. These incentives include exemption from duty and sales tax and machineries / equipment and spare parts used directly in the manufacturing process and are not produced locally. Exemption from import duty on raw materials / components used directly to manufacture the finished product and are not produced locally is also granted. In addition, customized or ‘specially packaged’ incentives, which could cover both tax and non-tax incentives, are also offered. Such incentives are negotiable based on the request of the companies involved and on the merit

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9 For shipyard operators in Malaysia to qualify for Investment Tax Allowance, they must promote products or activities that have at least 25% value-added content and managerial, technical and supervisory activities amounting to at least 15% of the Managerial, Technical and Supervisory Index as spelled out in the Industrial Linkage Program (ILP) incentives for the manufacture of promoted products specified in the List of ILP Promoted Products/Activities. ILP incentives are incentives which are provided to small and medium-scale industries in an approved ILP scheme administered by SME Corporation Malaysia, the Ministry of Entrepreneur Development and the Ministry of Finance.

10 Such projects namely projects are deemed projects of national importance involving heavy capital investment with long gestation period and high levels of technology. They are also highly integrated and generate extensive linkages, and have significant impact on developing the national economy.
of each case. Through two Shipping Finance Funds, the Government provided attractive financing to shipyards to promote the development of marine transport.

Further testimony to the Government’s relentless support to the industry, the Malaysian Industrial development Authority (MIDA) has special project officers to assist investors to set up shipyards and obtain the necessary approvals until they become operational. The Government also grants automatic approval for shipyards to employ any number of expatriates based on the conditions stated in Table 2.

Table 2
Conditions of employment of expatriates at Malaysian shipyards

<table>
<thead>
<tr>
<th>Company</th>
<th>Number of posts eligible</th>
<th>Duration</th>
</tr>
</thead>
</table>
| Foreign company with paid-up capital of US$2 mil. and above | Up to 10 posts including 5 key posts | • For key post : permanent employment  
• For non-executive posts : 10 year-contract  
• For non-executive posts : 5 year-contract |
| Foreign company with paid-up capital of more than US$200,000 but less than US$2 mil. | Up to 5 posts including at least 1 key post | • For key post : permanent employment  
• For non-executive posts : 10 year-contract  
• For non-executive posts : 5 year-contract |

Source: Malaysia Industrial Development Authority

The IMP3 has outlined several strategic thrusts for the Malaysian shipbuilding industry to boost its growth and development further:

- Enhancing domestic capabilities in the building of smaller vessels, ship repairing and maintenance activities
- Intensifying the upgrading of skills and engineering capabilities
- Strengthening the infrastructure and supporting facilities
- Strengthening the institutional support
- Expanding activities in the fabrication of offshore structures
These thrusts underscore the Government’s acknowledgment of the importance of the shipbuilding industry as a strategic industry that warrants a long-term development plan.

Challenges faced by local shipyards

Local yards are confronted with many issues, including lack of qualified personnel, rising operational costs, and excess capacity, among others. It is a known fact that in general, the local shipyards have limited shipbuilding and ship repairing capabilities, with many specializing in low-value and small vessels. To compound the matter, there is rising competition from yards in developing countries such as Vietnam and Thailand that offer low labor cost and harbor big ambitions to carve their names in shipbuilding. As a result, the yards such countries have been more successful in luring orders and business compared to our yards. Even Malaysian shipowners commission vessels from foreign yards and send them for repair and maintenance abroad due to their competitive advantage. This situation has hampered the development of shipbuilding and ship repairing in the country, and compromises on our ambition to become a self-sufficient maritime nation.

Despite the steady growth of its national fleet and the shipping sector over the years, Malaysia still has some way to go towards achieving self-sufficiency in shipping. This is seen in its dependency on foreign vessels to carry much of its cargo for international trade due to the shortage of local vessels. This situation has over the years contributed to the yawning deficit the country’s Net Balance of Payments for transportation services (see Table3). Freight and insurance are the main contributors to the high deficit recorded in the maritime sector. Many local shipowners order ships from shipyards abroad and send their vessels for repair and maintenance to those yards on account of local shipyards not having the capacity to undertake the construction, reparation and maintenance of big, technically challenging vessels.

### Table 3
Malaysia’s Balance of Payment for transportation services
January - September

<table>
<thead>
<tr>
<th>Year</th>
<th>BoP for transportation services (RM bil.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>-11.7</td>
</tr>
<tr>
<td>2001</td>
<td>-11.3</td>
</tr>
<tr>
<td>2002</td>
<td>-11.6</td>
</tr>
<tr>
<td>2003</td>
<td>-13.5</td>
</tr>
<tr>
<td>2004</td>
<td>-17.8</td>
</tr>
<tr>
<td>2005</td>
<td>-15.7</td>
</tr>
</tbody>
</table>

*Source: Ministry of Finance Malaysia*

Reflecting Malaysia’s growing trade and clout as a maritime nation, the capacity of Malaysian-flagged ships has increased over the years (see Table 4). Over the years, Malaysian shipowners have increased their fleet size and the capacity of the national tonnage to meet growing demand for shipping services in the country and beyond. However, although the growth in the national tonnage augurs well for Malaysia’s ambition to become a self-sufficient maritime nation, it cannot be ascertained whether the growing tonnage is attributed to acquisition of ships constructed at foreign or local shipyards. Judging by the persistently high outflow of Balance of Payments in the shipping sector over the past years, the continued reliance of local shippers on foreign vessels becomes apparent.

Table 4
Malaysian national tonnage for vessels of 1,000 GRT, 2001-2006

<table>
<thead>
<tr>
<th>Year*</th>
<th>Number of vessels</th>
<th>DWT</th>
<th>% of global capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>295</td>
<td>6,479,560</td>
<td>0.86</td>
</tr>
<tr>
<td>2002</td>
<td>312</td>
<td>6,699,295</td>
<td>0.88</td>
</tr>
<tr>
<td>2003</td>
<td>306</td>
<td>6,589,074</td>
<td>0.86</td>
</tr>
<tr>
<td>2004</td>
<td>335</td>
<td>9,768,247</td>
<td>1.26</td>
</tr>
<tr>
<td>2005</td>
<td>327</td>
<td>9,835,000</td>
<td>1.17</td>
</tr>
<tr>
<td>2006</td>
<td>325</td>
<td>9,633,000</td>
<td>1.06</td>
</tr>
</tbody>
</table>

* As of 1 January

Source: UNCTAD

Despite the encouraging growth of Malaysia’s merchant shipping capacity, local tonnage in certain shipping sectors is still insufficient to support the nation’s growing trade. Foreign lines dominate the carriage of cargo such as chemical and palm oil and in sectors such as the oil and gas sector. Part of the blame for the situation lies on the inability for local shipyards to cater to the demand for local vessels servicing those trade due to their technical and capacity limitations and due to lack of economies of scale. This situation creates a vicious cycle in which local shipowners continue to order ships from and service their ships at foreign shipyards which have the delivery track record and can offer products and services at highly competitive costs. As a result, local shipyards do not get much business from local shipowners. Lacking in lucrative and sustained orders, they see no point in investing on capacity, technology and manpower, hence eroding their competitiveness. This discourages local shipowners to commission local yards to build and repair their vessels, prolonging the chicken-egg-situation further.

Among the local cargo that are lacking in local carriers include palm oil, petroleum / diesel, chemical and exploration work equipment. Due to the lack of local vessels for the carriage of certain types of cargo, the Domestic Shipping Licensing Board (DSLB) under the Ministry of
Transport reserves the right to allow the requests by cargo owners to transport certain types of cargo using foreign vessels, should local vessels are unavailable or inadequate to handle them.

Table 5 illustrates the continued reliance of local shippers on foreign-flagged vessels to carry several types of cargo. The figures underline a worrying shortage of local vessels in the carriage of key cargo such as palm oil and chemical. The dramatic increase of foreign carriers in the ‘Others’ category from 2001 to 2005 warrants an urgent need by the stakeholders to identify the cargo composition to check the trend of foreign vessels’ domination in this segment. To a certain extent, these figures also indicate the inability of local shipyards to deliver the tonnage required in those trade which drives local shipowners to rely on foreign shipyards to deliver the vessels.

<table>
<thead>
<tr>
<th>Types of cargo</th>
<th>Registration</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palm oil</td>
<td>Local</td>
<td>34</td>
<td>29</td>
<td>136</td>
<td>12</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>Foreign</td>
<td>86</td>
<td>73</td>
<td>223</td>
<td>47</td>
<td>97</td>
</tr>
<tr>
<td>Petroleum / Diesel</td>
<td>Local</td>
<td>79</td>
<td>88</td>
<td>83</td>
<td>92</td>
<td>124</td>
</tr>
<tr>
<td></td>
<td>Foreign</td>
<td>149</td>
<td>93</td>
<td>71</td>
<td>125</td>
<td>203</td>
</tr>
<tr>
<td>Chemical</td>
<td>Local</td>
<td>8</td>
<td>30</td>
<td>-</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Foreign</td>
<td>19</td>
<td>98</td>
<td>3</td>
<td>54</td>
<td>116</td>
</tr>
<tr>
<td>Exploration work equipment</td>
<td>Local</td>
<td>80</td>
<td>75</td>
<td>-</td>
<td>12</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>Foreign</td>
<td>244</td>
<td>550</td>
<td>847</td>
<td>110</td>
<td>273</td>
</tr>
<tr>
<td>Others</td>
<td>Local</td>
<td>37</td>
<td>12</td>
<td>83</td>
<td>103</td>
<td>95</td>
</tr>
<tr>
<td></td>
<td>Foreign</td>
<td>25</td>
<td>52</td>
<td>-</td>
<td>547</td>
<td>503</td>
</tr>
</tbody>
</table>

*Source: Domestic Shipping Licensing Board, Ministry of Transport*

Reflecting the preference by local shipowners to look towards foreign shipyards, Malaysia remains a net importer of marine transport products, purchasing RM3.24 billion worth of products in 2005, compared to RM2.21 billion worth of exports. Major imports items include cruise ships, ferries, and cargo barges, which were valued at RM2.2 billion last year, underscoring our reliance on foreign-made vessels.

Plan of action to encourage the growth of the Malaysian shipbuilding industry

Malaysia has done considerably well over the years to put itself on the map of major maritime nations. However, much more needs to be done by policymakers and industry players alike for the nation’s shipping sector to increase the tonnage to facilitate the transportation of domestic trade. These are crucial in addressing several issues and concerns at one go, namely

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12 IMP3, p. 366.
13 Ibid.
the nation’s reliance on foreign-flagged vessels, the foreign exchange loss from dependence on freight and insurance services provided by foreign companies, promoting the local shipping sector and maritime ancillary services, and developing the shipbuilding industry.

The following measures are proposed to provide a boost to the shipbuilding industry to raise its competitiveness in line with the aspiration of IMP3:

1) **Consolidate the shipbuilding industry**

   Amid the trend of mergers and acquisitions, and alliances in shipping and many other industries, there could well be a compelling case of shipyards to consolidate. Serious questions have to be asked if a country of Malaysia’s size has a big enough domestic market to sustain the operations of the 70-odd shipyards in the country. Perhaps the time is high for the industry to consolidate to achieve economies of scale and better utilization of resources. Bigger shipyards may pool their resources in a more optimal manner to leverage on their strengths, to win more orders and to obtain better financing terms.

2) **Provide / improve incentives for local shipowners to use locally-made vessels and the services of local shipyards**

   It has to be acknowledged that in a fiercely competitive business such as shipping, business decisions are made based mainly on economics. The mantra is to deliver the most value for money and to make the most cost-effective decisions. There are certain types of shipping trade in which adequate tonnage and quality vessels can be delivered by local shipyards. However, in trades in which local yards are not capable of delivering the required vessels, incentives should be offered to local owners to procure from local yards over foreign ones. This could be in the form of fiscal incentives such as tax breaks, competitive financing and concessionary rates. However, in doing so, caution must be exercised not to reward inefficiencies and to strike a balance between the dynamics of demand and supply so as not to upset the equilibrium in the market and to preserve competition among the local shipyards.

   For shipowners, if it makes more economic sense to order ships from foreign yards and to repair and refurbish their vessels there, they will do so without hesitation. Admittedly, nothing much can be done to deter them from purchasing ships from yards or servicing them there in cases where local yards simply cannot meet their demands. This is especially true in segments involving large, sophisticated ocean-going vessels such as container, bulk and energy transportation. However, in segments which Malaysian yards can stand head to toe with their foreign counterparts, encouragement should be given to local shipowners to give preference to home-grown yards. This can be in the form of fiscal incentives such as tax breaks and competitive financing. Only by providing such incentives, and by improving on existing ones, can local shipowners be compelled to give business to local yards.
In taking this measure, care must be exercised so as not to violate international laws on protectionism and unfair practices, such as the ones spelled out by world Trade Organization (WTO). Just as important, such an initiative must not be taken at the expense of making sound business decisions and blunting the competitive spirit of local shipowners and shipyards alike.

iii) **Encourage Government-Linked Companies (GLC) to procure the services from local shipyards**

Government-Linked Companies (GLC) should be encouraged, if not compelled, as much as possible to procure the services of local shipyards for their needs. This would help local shipyards to build the track record and capacity in delivering certain types of vessels dominated by foreign shipyards, and would encourage local shipyard operators to invest to increase their capacity. The GLC will benefit from using the more cost-competitive services provided by local shipyards and from buying their products, compared to the more expensive vessels and services offered by foreign yards. Flush with local orders, the local shipbuilding industry will prosper, and the flow of Balance of Payment can be stemmed, creating a virtuous cycle all around.

iv) **Focus on niche segments in the shipbuilding industry to avoid direct competition with established foreign yards**

The law of competitive advantage dictates that it would not be cost-effective for Malaysia to compete with shipbuilding giants such as Korea, Japan and China in the ocean-going vessel segment. As such, it would be best for the local yards to focus on niche segments in the shipping sector.

Some yards have developed a name for themselves in the construction of certain categories of vessels such as leisure boats, anchor handling tugs and offshore support vessels, and even export their products. To excel in the global market, such yards should concentrate on niche segments in which they already have core competencies and capitalize on ‘hot’ segments such as in the oil and gas and marine leisure sectors, and undertake more aggressive promotion to target export markets.

Through the Third Industrial Master Plan (IMP3), the Government has identified several segments for Malaysian shipyards to concentrate on, namely:

- Small vessels, pleasure craft, tugs and pusher craft.
- Ship repair, refurbishment and maintenance.
- Marine engineering and precision equipment.
- Fabrication and offshore steel structure.
• Replacement of old tonnage and ship conversion. Encouraging production of vessels of 30,000 DWT and below to be deployed in coastal shipping
• Promoting the fabrication of offshore structures

Local yards should heed the policy direction of the Government by leveraging on their skills and experience in the segments they excel in and specializing in them. In this manner, they would not have to spread themselves thin to compete in areas which they do not have competitive advantage. By focusing on niche segments, they would stand a better chance to survive amid intense local and international competition in the industry, and would stand to make a more meaningful contribution to providing local tonnage in certain segments of the shipping sector.

v) **Promote and enhance trade**

Shipping services are demand-derived and they depend on trade performance. Hence, for shipyards to prosper, demand for shipping services must be sustained, and this can only be achieved through promoting and enhancing trade, the majority of which is transported via maritime means. With greater trade, demand for their services will increase, hence spurring the development of local tonnage in addition to boosting the shipyard sector and maritime ancillary services.

vi) **Provide and develop maritime ancillary services**

Shipyards also depend on many ancillary services beyond traditional maritime activities, such as banking, insurance and telecommunications. As such, serious and sustained efforts must be to boost those services to support the yards. This will indirectly catalyze the growth of the entire maritime sector. Comforted by the knowledge that the country has adequate ancillary services to meet their needs and cater to their further growth, local shipowners will be encouraged to order vessels from local yards.

**Conclusion : Towards creating a more vibrant shipbuilding industry in Malaysia**

The shipping sector in Malaysia has grown in leaps and bounds in tandem with its rising international trade, but the adequacy of local tonnage still leaves much to be desired. Expenditure on procuring vessels made in foreign yards, commissioning of reparation and refurbishment works of locally owned vessels at overseas yards, and reliance on maritime-related services such as freight and insurance from foreign companies combine to frustrate the objective of providing adequate national tonnage.

The assessment of the performance of the local shipbuilding industry reveals the enormity of the challenge faced by the stakeholders in meeting this target. Achieving local tonnage adequacy goes beyond providing locally-flagged and locally-made ships. The nature of shipping and maritime trade is such that decisions are made based on a host of considerations
and sometimes involve the complex interplay of many elements. A host of issues needs to be addressed, as covered by the discussion in the paper.

Shipyards in Malaysia face many challenges but there is a lot of potential for them to develop and grow in the future. The issues faced by local yards that hampered their development must be collectively tackled in a resolute fashion by the stakeholders in the industry. The success of any shipbuilding and ship repairing nation is dependent upon many factors, and the industry is linked to many other activities. Much can be learned from the experience of South Korea, Japan and China in their long-term approach and strategic emphasis in developing their shipbuilding industries to the level that they are today. As such, a comprehensive and holistic approach is needed to tackle the woes of the industry and to provide the impetus for it to grow further. Upgrading of technology and capacity, improving technical skills and enhancing production efficiency are among the urgent things that need to be done to boost the capacity and capability of local yards, and these can be achieved through policymaking and long-term strategizing.

It is clear from the discussion that a holistic approach is required to address the current situation of insufficient capacity of local tonnage and ability of local shipyards to fulfill domestic demand. It is easy for Malaysian companies to continue to just buy their way to attain tonnage sufficiency and to expand and modernize their fleet, but it would be more ideal for them to procure ships made by local shipyards and the hosts of services they offer. This would fulfill the objectives of developing the local shipbuilding industry, stemming the flow of foreign exchange from buying foreign vessels, addressing the net Balance of Payment outflow, and encouraging the growth of maritime ancillary services in the country. Better incentives, policy guidelines and perhaps legislation would help towards encouraging, if not compelling, local shipowners to commission newbuildings and undertake repair and servicing works on their vessels from local shipyards.

There is already an embarrassment of riches of incentives provided by the Government to the industry. Nevertheless, there must be a balance between state help and promoting competitiveness. Admittedly, a capital-intensive industry such as shipbuilding requires Government assistance to help the players absorb the huge capital outlay and to find their footing, but they must also hone their competitive spirit to survive the competition in this very competitive and increasingly globalized industry.

In paving the way forward to improve the capability and capacity of local shipyards, the IMP3 have laid out plans for them to upgrade their manpower skills and intensify the use of technologies. It is up to the industry to leverage on the support provided to improve their capacity, productivity and performance to enhance their competitiveness in this industry. The best bet is for them to focus on niche segments such as in the offshore oil and gas sector and leisure boats to gain competitive advantage. But more important than policy directives, a change in attitude and mentality among local shipowners and stakeholders is required to instill a sense of Malaysian-first and to realize the goal of attaining global competitiveness in shipbuilding.