PORT PRIVATIZATION IN THE CONTEXT OF A DEVELOPING NATION: THE MALAYSIAN EXPERIENCE

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Ports as crucial trade facilitators in Malaysia

The tremendous growth of ports and 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. Ports especially are recognized as essential contributors in facilitating Malaysia’s growing international trade, hence crucial to the prosperity of its trade-dependent economy.

In a matter of a few decades, Malaysia has successfully transformed its economy from being agricultural and commodities-dependent to a manufacturing and trade-based one. In 2005, exports of manufactured goods made up 78.4% of the country’s total exports. In 2005, exports of manufactured goods made up 78.4% of the country’s total exports.\(^1\) Malaysia is now the 17\(^{th}\) largest trading nation in the world, with a share of 1.4% of global trade (see Table 1).\(^2\)

The phenomenal growth in global trade has had a huge impact in the development of the ports and shipping in Malaysia. In Malaysia, this has spurred investment and development of various infrastructures to support the explosion in its increasing trade with the world’s nations. The development of maritime infrastructure especially has benefited tremendously from this trade and investment boom. This is underlined by the estimation that 95% of Malaysia’s international trade, the lifeblood of its economy, is being carried through the oceans via its international seaports.\(^3\) Given this, it is appropriate that Malaysia, a nation surrounded by a sea area much larger than its landmass, has been acknowledged as one of the world’s leading maritime nations.\(^4\)

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\(^1\) From www.statistics.gov.my (accessed on 7 November 2006).
\(^3\) www.mida.gov.my (accessed on 7 November 2005).
\(^4\) United Nations Conference on Trade and Development (UNCTAD) ranked Malaysia 20\(^{th}\) in a list of 35 most important maritime countries and territories as of 1 January 2006 in terms of deadweight tonnage (DWT) of its vessels (including national and foreign flagged), with a total of 9.63 million DWT contributing to 1.06% of the global DWT capacity.
### Table 1
Malaysia’s trade with the world 1995-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>184.99</td>
<td>194.34</td>
</tr>
<tr>
<td>1996</td>
<td>197.03</td>
<td>197.28</td>
</tr>
<tr>
<td>1997</td>
<td>220.89</td>
<td>220.94</td>
</tr>
<tr>
<td>1998</td>
<td>286.56</td>
<td>228.12</td>
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<tr>
<td>1999</td>
<td>321.56</td>
<td>248.48</td>
</tr>
<tr>
<td>2000</td>
<td>373.27</td>
<td>311.46</td>
</tr>
<tr>
<td>2001</td>
<td>334.28</td>
<td>280.23</td>
</tr>
<tr>
<td>2002</td>
<td>357.43</td>
<td>303.09</td>
</tr>
<tr>
<td>2003</td>
<td>397.88</td>
<td>316.54</td>
</tr>
<tr>
<td>2004</td>
<td>480.74</td>
<td>400.08</td>
</tr>
<tr>
<td>2005</td>
<td>533.80</td>
<td>434.00</td>
</tr>
</tbody>
</table>

Source: MATRADE

### An overview of ports in Malaysia

The area now known as Peninsular Malaysia reached its epoch as a maritime power in the 15\textsuperscript{th} century, with the port in Melaka becoming a focal point for both local and international trade. The commercial importance of the port was enhanced by its strategic position in the middle of the seaborne trade routes from the Indian Ocean to East Asia.\(^5\) After the fall of the Melaka Sultanate to Portuguese in 1511, the Melaka port gradually lost its status as an influential trading port. Under British rule in the 18\textsuperscript{th} century, the Straits Settlements consisting of three ports in Melaka, Penang and Singapore were established, governed by British India Company as commercial outposts.\(^6\) Ports in Klang (known then as Port Swettenham) and Penang prospered amidst the boom in tin and natural rubber production in the 18\textsuperscript{th} and 19\textsuperscript{th} century.\(^7\)

The rapid industrialization of Malaysia’s economy over the last few decades has transformed it into a manufacturing and trading nation of some stature. Its ports, at the forefront of facilitating its trade with the world, went through intensive growth and tremendous development during its period of rapid economic development, especially in the 1990s. The carefully thought-out infrastructure development policies of the government have brought about well-developed transportation infrastructure and facilities such as highways, railways, airports and especially ports in the country.


\(^7\) From [http://www.kiat.net/malaysia/history.html](http://www.kiat.net/malaysia/history.html) (accessed on 6 November 2006).
Ports in Malaysia have evolved beyond places where ships load and unload cargos and passengers. The country’s ports, have assumed a critical role in the overall pattern of trade and transport, providing a link between the shipping service and the inland transport system. Realizing the need to meet the challenge of matching its transport sector’s efficiency with its rapidly growing industrialized economy, Malaysia has put in place an infrastructure development plan focusing on inter-connectivity among various transport modes. This reflects the acknowledgement of the need to come up with an integrated, comprehensive approach to address the unevenness in the development of its transport modes and to integrate with an efficient, seamless link with other transport modes. Malaysia’s ports today, featuring world-class facilities, act as crucial points of interface with other transport modes such as road, rail, river and air.

In Malaysia, there are Federal and State ports. Federal Government ports were established under the Port Authorities Act 1963. These ports were managed and operated by the government prior to the Port Privatization Act 1990. However, after the implementation of the Act, the government role has become more focused as a regulatory body of private operators which manage the commercial operations of privatized ports. The regulatory bodies post-privatization are Port Klang Authority, Johor Port Authority, Bintulu Port Authority, Kuantan Port Authority and Penang Port Commission, which was established under the Penang Port Commission Act, 1955. These regulatory bodies have their own Board of Directors headed by a Chairman.

There are 18 major State ports in Malaysia, with five in Peninsular Malaysia, seven in the state of Sabah and six in the state of Sarawak (see Figure 1). The country’s major seaports in Penang, Port Klang and Tanjung Pelepas are located along the coast of the Straits of Malacca, one of the world’s most crucial trade lanes, featuring excellent facilities and connectivity. This is not coincidental as the west coast of Peninsular Malaysia is where the majority of the population resides and most economic activities take place, hence enjoying better transportation and connections compared to other areas of the country.

The ports in Sabah are regulated by the Sabah Ports Authority, a state statutory body established under the SPA Enactment 1967. The state ports in Sarawak were established under the Sarawak Port Authorities Ordinance, 1961 and are regulated by three state port authorities, namely Miri Port Authority, Kuching Port Authority and Rajang Port Authority. The regulatory bodies in these two state have their own Board of Directors headed by a Chairman. Sarawak port authorities are under the purview of the state’s Ministry of Infrastructure Development and Communications, while Sabah port authorities are under the aegis of the state’s Ministry of Communications and Works.

There are approximately 1,000 privately owned ports, jetties or designated landing points under the purview of the Marine Department by virtue of the country’s Merchant Shipping Ordinance and the Fisheries Development Authority of Malaysia. Among the owners are oil companies, beach resorts, fishermen and individuals.
The country’s premier and largest seaport is Port Klang, serving the Klang Valley which is the most well-developed and industrialized region in Malaysia. Due to its strategic location, it has been designated since 1993 as the National Load Center for both local and regional containers, in an attempt to generate critical mass at one port to make it an attractive destination for mainline operators. This policy has resulted in the diversion of cargo from other ports to Port Klang, which handles almost half of Malaysia’s container trade and is a major regional distribution and transhipment hub. Port Klang is the world’s 12th largest container port, handling 5,543,927 million TEUs in 2005. Two of its terminals, Westports and Northport, boast world-class facilities that can cater to the world's largest ships and have trade connections with more than 500 ports around the world.

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Port of Tanjung Pelepas (PTP), Malaysia’s transhipment hub at the southern tip of Peninsular Malaysia, began operations in 1999 and has been a spectacular success story ever since. Earmarked by the government as the transhipment hub for Malaysia’s southern region, PTP has emerged as one of the fastest growing container ports in the world, and has established itself has one of the world’s top 20 container terminals. With Moller-Maersk and Evergreen, two of the world’s largest container service operators, as shareholders, PTP is poised to realize its ambitious plans to become Asia’s premier transhipment hub and attract more liners and individual services.

Penang Port, the gateway port to Peninsular Malaysia’s northern region, is an established port serving one of the region’s busiest trade routes and a prosperous industrial zone. Capable of handling 25 million tons of cargo annually, it enjoys connectivity with over 200 ports worldwide.\(^{10}\) It serves the Malaysia-Indonesia-Thailand growth triangle and has a thriving manufacturing-based hinterland. Penang Port is well connected with land and air modes and is accessible to and from all the major economic regions in Peninsular Malaysia.

Johor Port was established in 1977 and features diverse cargo, storage and logistics facilities. It enjoys a strategic location in a busy transport hub in the state of Johor at the south-eastern tip of Peninsular Malaysia, attracting major carriers such as Evergreen, Wan Hai and PIL.\(^{11}\) Already serving an economically vibrant industrial hinterland, Johor Port is poised to benefit further from the massive Southern Johor Economic Region development which was recently announced by the Malaysian government.

Kuantan Port serves the Eastern Corridor of Peninsular Malaysia stretching from Kelantan to Pahang, focusing on the cluster of international chemical plants in the Gebeng Industrial Estate. As such, its port facilities feature palm oil berths, liquid chemical berths, mineral oil berths and a MTBE (methyl tertiary butyl ether) terminal. The port has undergone a massive expansion program to accommodate bigger capacity and position itself as a state-of-the-art multipurpose port.\(^{12}\)

Kemaman Port is another port on the East Coast of Peninsular Malaysia, serving the steel plants, crude oil terminals, gas processing plants, refineries and petrochemical complexes in the area. The facilities at this port, one of the deepest seaports in Malaysia and fast emerging as the new gateway to the Asia-Pacific region, include three multipurpose berths, one liquid chemical berth and one LPG export terminal.\(^{13}\) It also features a supply base catering to the needs of petroleum companies operating off the shores of Terengganu. With its privatization, Kemaman port is poised to expand rapidly in tandem with the growth of the area’s petrochemical and manufacturing industries.\(^{14}\)

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\(^{14}\) ‘Kemaman Port to be privatised by mid-2005’, The Star, 18 February 2005.
Bintulu Port, located on Sarawak’s northeastern coast, is the only export gateway for the country’s biggest export earner - liquefied natural gas (LNG). Commencing operations in 1983 and privatised in 2001, its facilities include an LNG terminal, LPG jetty and a new dedicated container terminal equipped with the latest and most modern port equipment and other supporting facilities. It is the world’s largest single LNG port featuring three LNG jetties capable of handling up to 25 million tons per year.

In East Malaysia, two riverine ports in Sarawak, Kuching Port and Miri Port, serve the southern and northern part of the state respectively. Sabah is a major exporter of timber, petroleum-based products, palm oil, cocoa beans, rubber and mineral oils, and these cargos are moved via the state’s main seaports, Kota Kinabalu, Sapangar Bay, Sandakan, Tawau, Lahad Datu, Kudat, Kunak and Labuan, all accessible to international shipping. A new container terminal at Sapangar Bay near Sabah’s capital of Kota Kinabalu has been developed to handle the state’s container operations except for general cargo.

Malaysian ports have registered commendable growth in recent years, as evidenced by the tremendous growth of container throughput (see Table 2). With the world container trade expected to record solid growth in the years ahead, there is every reason to be bullish about the growth prospects of container throughput at Malaysian ports.

**Table 2**

National container throughput, 1995-2005 (in mil. TEUs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Throughput (TEUs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>2,135,484</td>
</tr>
<tr>
<td>1996</td>
<td>2,564,305</td>
</tr>
<tr>
<td>1997</td>
<td>3,014,497</td>
</tr>
<tr>
<td>1998</td>
<td>3,064,071</td>
</tr>
<tr>
<td>1999</td>
<td>3,990,015</td>
</tr>
<tr>
<td>2000</td>
<td>4,951,227</td>
</tr>
<tr>
<td>2001</td>
<td>5,455,379</td>
</tr>
<tr>
<td>2002</td>
<td>9,060,316</td>
</tr>
<tr>
<td>2003</td>
<td>10,248,742</td>
</tr>
<tr>
<td>2004</td>
<td>11,341,271</td>
</tr>
<tr>
<td>2005</td>
<td>12,029,946</td>
</tr>
</tbody>
</table>

*Source: Portsworld.com, Malaysian Statistics Department*

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18 ‘New container terminal 37% completed’, Borneo Post, 14 August 2004.
Underlining the impressive growth of container throughput at Malaysian ports, individual ports have charted tremendous growth in the last decade, many in the double-digit figure (see Table 3). Underlining this achievement, the growth at Port of Tanjung Pelepas (PTP), Malaysia’s newest port and its main transhipment hub, has exceeded all expectations, from handling merely 37,539 TEUs in its debut year in 2000 to a stunning 4,044,811 TEUs in 2005. PTP has emerged as the 16th largest container terminals in the world and is poised to handle more boxes with its ambitious capacity expansion drive, improving productivity and aggressive marketing.19

### Table 3
Container throughput at selected Malaysian ports, 1995-2005 (in mil. TEUs)

<table>
<thead>
<tr>
<th>Port</th>
<th>1995</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Klang</td>
<td>1.134</td>
<td>3.207</td>
<td>3.759</td>
<td>4.533</td>
<td>4.841</td>
<td>5.243</td>
<td>5.544</td>
</tr>
<tr>
<td>Penang</td>
<td>0.433</td>
<td>0.636</td>
<td>0.604</td>
<td>0.634</td>
<td>0.688</td>
<td>0.772</td>
<td>0.795</td>
</tr>
<tr>
<td>PTP</td>
<td>-</td>
<td>0.038</td>
<td>N/A</td>
<td>2.669</td>
<td>3.317</td>
<td>3.836</td>
<td>4.045</td>
</tr>
<tr>
<td>Johor</td>
<td>0.303</td>
<td>0.659</td>
<td>0.639</td>
<td>0.684</td>
<td>0.750</td>
<td>0.806</td>
<td>0.837</td>
</tr>
<tr>
<td>Kuantan</td>
<td>0.023</td>
<td>0.063</td>
<td>0.076</td>
<td>0.092</td>
<td>0.108</td>
<td>0.123</td>
<td>0.119</td>
</tr>
<tr>
<td>Bintulu</td>
<td>0.025</td>
<td>0.036</td>
<td>0.048</td>
<td>0.066</td>
<td>0.146</td>
<td>0.144</td>
<td>0.148</td>
</tr>
<tr>
<td>Kuching</td>
<td>0.071</td>
<td>0.110</td>
<td>0.110</td>
<td>0.117</td>
<td>0.139</td>
<td>0.141</td>
<td>0.143</td>
</tr>
<tr>
<td>Sabah</td>
<td>0.115</td>
<td>0.149</td>
<td>0.153</td>
<td>0.171</td>
<td>0.195</td>
<td>0.208</td>
<td>0.330</td>
</tr>
</tbody>
</table>

*Source: Various ports, Statistics Department Malaysia*

All major seaports in Malaysia feature modern and high-tech facilities and equipment that can facilitate a full range of cargo handling and related activities. They are supported by an Electronic Data Interchange (EDI) system which allows for speedy clearance of cargo through the electronic transfer of documentation.

Port operations in Malaysia, as is the case worldwide, have entered into a phase of sophisticated development with computerization of container terminal operations. There are dynamic and revolutionary changes that are taking place in various aspects of port operations to cater to greater container volume and ship sizes, requiring the use of

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19 UNCTAD (2005).
sophisticated equipment and state-of-the-art IT, data exchange and communication systems. There is keen competition not only between Malaysian ports and others in the region but also among themselves to attract cargo and users. All these exert demand on the ports to keep pace with the developments in port trends and advancement in operations to provide better services and enhance their attractiveness to users, and boost their competitiveness.

Sustained high levels of economic growth have resulted in increasing complexities in the functions and operations of ports, the inland transport networks linking ports and the related institutional framework. To avoid duplication of functions and to achieve better utilization of resources, niche ports have been designated, such as Port Klang as the national container load center, Port of Tanjung Pelepas as the transhipment hub and Bintulu Port as a dedicated liquefied natural gas (LNG) port. Such ‘branding’ exercise has helped the ports, which have been aggressively spreading their wings to enhance their connectivity and appeal, to market themselves as specialized ports. This bears testimony to Malaysia’s tremendous rise and growing clout as a global maritime player.

**Port privatization in Malaysia**

The Malaysian government has long recognized the need to articulate a long-term plan to manage and develop its ports in a systematic and efficient manner. Towards meeting this objective, the Economic Planning Unit (EPU) in the Prime Minister’s Department commissioned a study in 1987 to draw up a blueprint for a national port policy. The study, outlining policy recommendations and action plans to enhance the growth and development of Malaysian ports, set the pace for rapid port development in the country. Central to the policy was port privatization and the establishment of a national load center featuring modern terminal facilities to attract container shipping lines.

Despite the absence of a comprehensive and explicit national transport policy, the Malaysian Government has emphasized the importance of developing its ports as a critical conduit to facilitate its growing international trade. Given the nation’s dependence on its seaports to facilitate its international trade, the government has articulated a policy of encouraging Malaysian cargo to be handled by Malaysian ports, preferably carried by Malaysian-flagged vessels. Always mindful of the need for ports to have ready capacity to handle greater cargo volume and to lure main line operators, the government has also adapted a supply-driven policy to retain and enhance the competitiveness of its ports. Towards this, Malaysia has taken a supply-driven approach to ensure readiness of its ports to handle bigger volume.

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21 Ministry of Transport Malaysia (2005).
Among the main policy objectives pertaining to port development throughout the various stages of the nation’s economic growth are:

- Developing and expanding port facilities.
- Optimizing the utilization of existing port facilities.
- Improving port productivity and management efficiency.
- Enhancing port infrastructure and capacity.
- Promoting multimodal\textsuperscript{22} transport.
- Developing and improving ancillary services.
- Developing land-side transportation and cargo handling facilities.
- Promoting and enhancing automation and the use of IT in port operations and cargo handling.
- Promoting the use of Electronic Data Interchange (EDI) to facilitate advanced, flexible and more effective Customs clearance.
- Setting up free zones in ports to reduce Customs formalities and to encourage commercial activities within the ports’ premises.
- Setting up distriparks within port areas to encourage value-adding activities to attract transhipment cargo.
- Setting up Inland Clearance Depots in industrial areas to speed up the processing and documentation of cargo before reaching seaports.
- Privatizing Federal ports.

Central to this objective is the promotion of port privatization to improve the management, performance and efficiency of the ports, to instill best practices and to measure them against the world’s best ports. The first privatization involved Klang Container Terminal at Port Klang in 1986, marking the first public entity to be privatized in Malaysia. The introduction of Port Privatization Act 1990 acted as a catalyst to the privatization of more ports: after the successful privatization of Klang Container Terminal, the ports of Penang, Johor, Kuantan and Bintulu followed suit in the 1990s.

The Malaysian port privatization experience offers a fine lesson in finding a balance between guiding the ports in taking crucial ‘baby steps’ and ‘letting go’ once they are firmly on their feet. In doing so, the privatization exercise of ports started off with the corporatization of the Federal ports, which typically involved the formation of government-owned companies taking over the ports’ assets and services. Subsequently, the companies would divest the common shares they held to private investors, with the government remaining as the major shareholders. This would free the port authorities to focus on playing the role of regulators and trade facilitators, while private companies

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\textsuperscript{22} Multimodal transport involves the movement of goods from the producer to the consumer by a single entity, commonly known as Multimodal Transport Operators (MTO), using at least two different modes of transport on a single transport document. Over the years, multimodal transport has developed into an independent transport mode with its own set of regulations built around the seamless transportation of goods.
would carry out the commercial operations of the ports. Several holding companies of terminal operating companies are listed on Bursa Malaysia, the national stock exchange.

The effects of privatization on ports in Malaysia

The tremendous growth in cargo throughput in Malaysian ports and in commercial shipping activities in the country over the years can be largely attributed to the relentless efforts made by the Malaysian government and the tireless support of its relevant agencies. All these are done without undermining the need for the nation’s ports to develop their own competency and efficiency to survive in an increasingly competitive business environment and globalized world. One of the critical success factors of Malaysian port development is no doubt the privatization exercise, which has often been attributed as a prime catalyst in the growth of the nations’ ports.

The government spares no efforts to develop Malaysia as a maritime nation by enhancing shipping and ports capacity, developing human resources, ensuring the safety of ships and navigation, and providing efficient ancillary services. It is active in promoting local ports actively overseas, highlighting the facilities available, the capable management, the excellent infrastructure and the high level of services of Malaysian ports. These strengths could not have been achieved without the port privatization model which has been adopted and implemented to great effect.

Through the Maritime Division of Ministry of Transport, the Malaysian government is committed to build a modern, efficient and a safe maritime sector, and to carry out inter-sectoral activities towards making Malaysia a successful maritime country. These are achieved via the fulfillment of the roles of the Maritime Division to formulate policies relating to the development and operation of ports, and to plan, co-ordinate and monitor projects relating to ports, among others.

It goes without saying that today’s ports operate in a viciously competitive field fraught with many challenges. Central to the role of the Maritime Division is to oversee efforts to enhance the competitiveness and attraction of Malaysian ports to compete on the global stage. In fulfilling this objective, the Government has undertaken the privatization exercise of its ports as a prelude to achieving the following:

- Ensuring a supply-driven environment by providing ample capacity in ports to mitigate congestion and reduce waiting time.
- Developing services such as feedering and bunkering at local ports, and other ancillary services such as banking, insurance and legal.
- Facilitating supply of adequate facilities at ports to accommodate large vessels and increasingly larger types of ships.
- Creating a commercially competitive port environment to encourage the development of value-added logistics services and infrastructure to encourage transshipment traffic.
• Creating a conducive environment to attract Main Line Operators such as offering shipping lines to buy into equity of ports.

It is a testimony to the success of the Malaysian port privatization exercise that the above objectives have been achieved in varying degree, thanks to the port operators being more commercially-oriented and competitive-minded post-privatization. It epitomizes the fulfillment of the objectives of privatization to create more efficient and competitive port sector in the country. While every developing country should tailor the figurative ‘privatization cloth’ to suit its own need and available resources, there are some examples worthy of emulating from the Malaysian port privatization experience, especially in the manner that socio-political obligations are balanced with commercial interests. It also presents a good case in pacing the implementation of the exercise at a tempo that does not upset existing structures and balances, while at the same time observing the need to be competitive and to keep pace with the complex interplay between trade, economic, political, social and even historical factors.

Future challenges for Malaysian ports

Although Malaysia can be rightly proud of its achievements in the maritime sector thus far, it still has its work cut out to become a truly competitive maritime nation. More needs to be done especially in the area of ports and shipping for the country to fully exploit its maritime resources, infrastructure and expertise to enhance its socio-economic standing. Indeed, Malaysia has many criteria to become a maritime powerhouse – glorious maritime heritage, strategic location, excellent ports and shipping facilities – but much more can be achieved in harnessing these attributes.

For a trading nation like Malaysia whose economic prosperity depends a lot on the efficiency of its maritime sector, it is critical to adjust and respond to fast changing market conditions. This is important in light of increasing competition in the maritime sector, especially among ports, and the relentless demand for speed and efficiency by the stakeholders involved in cargo delivery all along the maritime supply chain. The competition for ports to attract cargo and the never-ending pursuit of shipping liners for operational efficiency and economies of scale exert tremendous pressure on port stakeholders to provide the best, most effective services at all times.

Malaysia’s dependence on and demand for maritime transportation system will continue to grow in tandem with its growing trade and economy. Maritime transport is an extremely dynamic field, as evidenced by the growing emphasis on logistics and supply chain management that offers fresh approaches to business processes, techniques and technologies to handle and deliver cargo more efficiently. With the concept of multimodal transport fast becoming a reality, and with the maritime sector being at the forefront of this concept, it is paramount that port operators stay abreast of its development. They must consistently enhance their ports’ efficiency and subsequently
integrate them into the bigger transport chain to facilitate speedier and more efficient transportation of goods.

Port development will continue to be a priority for Malaysian ports as they prepare to increase their share of the rapidly expanding intra-regional and transhipment business. This is emphasized by the bullish forecast of ports throughput in the country which is expected to triple the current volume in 2020.\textsuperscript{23} The government involvement in transport investment, however, is set to continue to decline.\textsuperscript{24} Instead, the port privatization model will continue to be adopted to steer Malaysian ports into a higher level of competitiveness and efficiency. More and more, the expertise of global operators is sought in the development of these global infrastructure facilities, and Malaysia has done so with positive results. The investments of Maersk-Sealand in the Port of Tanjung Pelepas and Hutchinson in Westports in Port Klang, made possible by privatization, have boosted operational efficiency, competitiveness and cargo volumes at these ports. Their presence has also exposed the locals to best practices in port operations and management, and has helped them improve their skills and knowledge in those areas.

Privatization has also led to investment opportunities in the Free Zones of several Malaysian ports. Distripark infrastructure and facilities have been developed towards enhancing further Malaysia’s role as a regional distribution centre. The establishment of Free Zones in Port Klang, modelled after the Jebel Ali Free Zone at Dubai Port, and Port of Tanjung Pelepas, are steps in the right direction towards realizing this ambition. The onus is on today’s ports to be able to present an attractive package of investment opportunities and incentives to attract private investments for their expansion plans, in the wake of declining public funds.

With regards to the commercial shipping link in the chain of maritime transportation in Malaysia, shipping policies have been put in place to promote local the shipping sector. But alas, decades after a national shipping line policy was initiated, the volume of local cargo carried by Malaysian-flagged vessels is still at an unsatisfactory level. This is largely due to the shift in Malaysian exports from primary commodities to manufactured goods, and the inadequacy of certain types of vessels to carry locally manufactured products. As a consequence of the mismatch between the national fleet growth and the boom in export volume of Malaysian goods, its containerized exports continue to ‘leak out’ and affecting the nation’s Balance of Payments. Foreign shipping lines continue to dominate the local shipping scene, causing Malaysia to incur huge outflow of payments of freight annually.

Although many Malaysian shipping companies have gone on from strength to strength over the years, the nation’s fleet expansion has not been able to meet the rapid growth and demand in the shipping services sector. Merely 10% of the country’s trade is carried by local ships,\textsuperscript{25} and the size of the Malaysian merchant fleet is still small by global standards. As such, Malaysia is still at the mercy of foreign mainline operators which

\textsuperscript{23} Portsworld (2005).
\textsuperscript{24} From www.mida.gov.my (accessed on 17 November 2006).
can switch ‘allegiance’ easily by calling at ports in other countries which can offer better services at better rates. Hence, the pressure is on for Malaysian ports to continuously improve their capacity, efficiency and productivity to attract the mainline operators.

As the maritime sector, an essential segment of the greater transport network, continues to face intense competition from other modes of transportation, it must position itself to integrate seamlessly in the bigger picture of the transportation network. This should be achieved in a manner that meets challenge of carrying and handling cargo in a speedy, efficient and cost-competitive manner. This will demand Malaysian ports to increase their capacity, improve their performance and enhance their competitiveness to weather the challenges not only from other transport modes but from other ports in the region as well. While they have done well to overcome the challenges posed by their competitors, there are many others looming in the horizon. There is a pressing urgency for Malaysian ports to brace for the impending competition in a further liberalized and globalized world of free trade.

It is thus crucial that Malaysian ports, at the forefront of the transport sector and trade facilitators, enhance their competitiveness and efficiency to improve the country’s competitive advantage in an increasingly competitive global market. They need to face the challenges and realities of the environment they operate in determinedly, and overcome obstacles hindering their competitiveness decisively. It is imperative that the port regulators and operators provide more efficient and cost-competitive services, leveraging on the support and incentives already extended by the government, and through business-friendly policies such as privatization.

The Malaysian government is steadfast in its commitment to provide a conducive regulatory framework, policy direction and administrative support to ensure that its port development strategies continue to be responsive to market dynamics and customer needs. As a result, Malaysia can be justifiably proud of the availability of world-class ports and services. But the onus is still on the stakeholders not to rest on their laurels - amid keen competition in the maritime industry and international trade, they must continue to improve their competitiveness and pursue greater efficiency. As other ports in the region are also getting better, they will pose stiff competition to Malaysian ports in the battle for cargo and mainline operators. This calls for Malaysia to continue to train its focus on enhancing the competitiveness of its ports to survive and even thrive in the face of such challenge.