



# SEA VIEWS

## MIMA'S ONLINE COMMENTARY ON MARITIME ISSUES

**No. 4/2010**

**1 April 2010**

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### **Aligning the maritime industry towards realizing the New Economic Model aspirations**

**Nazery Khalid**

*The announcement of the New Economic Model by the Prime Minister of Malaysia, Datuk Seri Najib Tun Razak on 30 March 2010 has set Malaysia abuzz. This commentary ponders on how maritime industry players can help meet the aspirations of the ambitious model and what they need to do to adjust to the new realities that it will arise therefrom.*

#### **Stepping up to the plate**

Malaysia is at a crossroad. It has done well to boost economic growth, thanks to sound economic strategies and management. From being a developing nation dependent upon commodities and agriculture to power its economic growth, Malaysia is now one of the top 20 trading nations. However, it has found itself 'stuck' in so-called 'middle income trap'. The

economy, while more diversified today compared to three decades ago, is still reliant upon labor-intensive activities and, inevitably, cheap labor. Malaysia's vulnerability to external shocks, as seen during the recession and credit crunch, underscores the urgent need for the nation's economic planners and policymakers to take drastic actions to make the economy more robust and move it up the value chain.

The New Economic Model (NEM) announced by Prime Minister Datuk Seri Najib Tun Razak provides the compass with which Malaysia can refer to in deciding which way to go from this crossroads. The NEM envisions a Malaysian economy whose growth is propelled not just by capital but by productivity. This is espoused by the target to elevate the income of the *rakyat*, being one of the three pillars upon which the NEM is built. Skeptics might scoff at the grand ambition of the model and warn of the huge challenges ahead to realize its aspirations, but it is hard not to see the NEM as anything but a step in the right direction to make Malaysia's economy more competitive and resilient.

In announcing the NEM, the Prime Minister hit the nail on the head when he said Malaysia faces "21<sup>st</sup> century changes that require 21<sup>st</sup> century approaches". In overcoming these challenges, he called upon fellow Malaysian to transform the way they work and think to adjust to a more competitive business climate and more liberalized and globalized environment.

This is a clarion call that players in the maritime industry must take note of and take up. Being in an industry which facilitates much of the nation's trade and a key enabler of its offshore oil and gas sector, the maritime industry is at the forefront of the nation's economic growth. They must play their part in helping the country attain the lofty aspirations spelled out in the NEM.

### **The NEM challenge for maritime industry players**

What then can, and should, the players in the maritime industry do to ensure the targets of the NEM are met? For starters, they have to re-orient the way they think of their business, operations and processes. They have to wake up to the fact that the operating environment has changed and will continue to be shaped and reshaped by various political, environmental, social, technological, economic and legal developments, among many others. These will demand industry players to make the necessary adjustments to operate in a more competitive, liberalized and globalized realm while fulfilling business imperatives, national agendas and social expectations.

To ensure that the maritime industry develops in a way that fits into the NEM framework, players must take stock of where they are, what are the opportunities inherent in the industry, and what strategies to employ to reap these opportunities. The NEM is built on the principle of enhancing productivity as a catalyst for economic growth. In light of this, industry players must focus on increasing their productivity to propel the growth of their business and the industry, instead of just relying on the injection of capital alone to spur business growth. This is an essence of the NEM that will require wholesale change in the way industry players do business, overcome challenges, reap opportunities, and position themselves accordingly in a world in constant flux.

Industry players must also boost efficiency in the production of goods and provision of services. They should strive to deliver to their customers better quality products and services at competitive costs and in good time. For this to happen, they need to upgrade their infrastructures, evaluate the processes and systems, harness and nurture talent, leverage on technologies and IT, and adopt a culture of ‘doing better everyday’. Given that competition is rising in all facets of business in the maritime industry, it is essential that Malaysian industry players improve the efficiency of their products and service delivery to retain customers and win new ones.

Productivity and efficiency cannot be attained by mere pronouncements of grand plans and wishful thinking. To be sure, maritime industry players can fast-track the process of becoming productive and efficient by developing strategic alliances and joint ventures with foreign partners who have better resources and more experience, and benefit from technology transfer and investment from their partners. However, companies which are serious about growing in the long haul and tackling bigger markets inevitably need to invest in R&D to develop better products and services.

The situation in the shipbuilding and ship repairing industry in Malaysia is a case in point. The absence of shipyards of international significance in Malaysia can be partly blamed on the fact that they generally have inadequate capacity and low productivity and efficiency to deliver world-class products and services and compete on a global scale. This can be largely attributed to the lack of R&D culture among local shipyard operators that is so essential to attain a high level of excellence in this field. It is not a coincidence that South Korea, the world’s biggest shipbuilding nation, allocates a bigger percentage of their GDP to R&D compared to Malaysia. This difference is telling when one compares where South Korea’s modern shipbuilding industry is today compared to Malaysia, although both nations started out about the same time in the industry.

The report by the National Economic Action council (NEAC) released on the same day as the announcement of the NEM outlined what should be done to help realize the aspirations of the NEM. It drew attention to the success of South Korea, a model Asian nation that managed to transform its economy into the global economic powerhouse it is today, despite lacking in natural resources. South Korea’s ascent to become the 13<sup>th</sup> largest economy in the world in a matter of decades since the Korean War provides precious leads to Malaysia in its quest to attain high income status.

At the core of the economic Transformation Program spelled out in the NEM are the eight components of Strategic Reform Initiatives (SRIs). They are :

- Re-energizing the private sector
- Developing quality workforce and reducing dependency on foreign labor
- Creating a competitive domestic economy
- Strengthening of the public sector
- Carrying out transparent and market-friendly affirmative action
- Building knowledge-base infrastructures

- Enhancing the sources of growth
- Ensuring sustainability of growth

Maritime industry players would do well to take a good look at the way they do business and plan for the future to align their businesses to be in sync with the SRIs. Players in sectors such as merchant shipping, port operations, shipbuilding, ship repairing, maritime ancillary services, and offshore exploration and production must strive to support the Transformation Program by taking up the strategic thrusts of the SRIs. They should invest in R&D, technology, IT, infrastructures and human capital development to realize the goals of the program.

### **Swim or sink**

As Malaysia's economy, whose growth still depends on Foreign Direct Investment (FDI), reels from declining investments and growing competition from regional nations to lure investors, it must alter its course towards attaining greater competitiveness. Malaysia's ranking in several categories in terms of ease of doing business, as stated in the World Bank's *Doing Business 2010* report, is a damning indictment of how alarming the nation has slipped from the ranking of competitive nations. Nations already ahead of us in terms of business and trade competitiveness are pulling further away, while those ranked below us are closing in and getting better.

It is no longer business as usual, not on land nor at sea. Malaysians, including practitioners in the maritime industry, must transform not only the way they do business but make mindset and attitudinal change. They must no longer think about servicing the domestic market and focusing only on short-term gains, and hope to be indefinitely cocooned by protectionist policies and subsidies. Doing so almost always leads to inefficient allocation of resources, low productivity, and little attention given to R&D and human capital development.

It is high time that maritime industry players to wake up to the fact that taking a myopic worldview of their business environment and continue with the status quo in their respective sectors. Realizing the ambitious targets set by NEM requires nothing short of the highest level of commitment to excellence, strong resolve and hard work, and major mindset transformation. Only by doing so can the nation make the quantum leap required to attain high-income status and to generate knowledge-based, innovative-driven economy, as envisioned by the NEM. The motto '*pencapaian diutamakan*' must be used as a mantra for maritime industry players to adapt to the dynamics that will be unleashed by the NEM and to enhance Malaysia's maritime competitiveness.