



# SEA VIEWS

## MIMA'S ONLINE COMMENTARY ON MARITIME ISSUES

**No. 3/2010**

**10 March 2010**

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### **Towards realising the potential of Malaysia's shipbuilding industry**

**Nazery Khalid**

*Malaysia's dependence on shipping services to power its economic growth is not matched by a thriving domestic shipbuilding industry. Local shipyards face many challenges to enhance their capacity, capability and competitiveness. While some are doing well servicing niche markets, even abroad, much more needs to be done to truly realise the potential of Malaysia's shipbuilding industry.*

#### **The importance of shipbuilding to Malaysia**

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. United Nations Conference on Trade and Development (UNCTAD) ranked Malaysia

18<sup>th</sup> in a list of 35 most important maritime countries and territories as of 1 January 2008 in terms of deadweight tonnage (DWT) of its merchant vessels (including national and foreign flagged).

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 trades are transported by ocean-going vessels (MASA, 2008).

Shipping is therefore a vital facilitator of Malaysia's trade, hence crucial to its economic prosperity. Demand for shipping services in the country is rising fast, in tandem with its growing trade and booming offshore oil and gas activities. Malaysia ranked as the 18<sup>th</sup> largest maritime nation in the world in a list compiled by United Nations Conference on Trade and Development (UNCTAD) in 2009, contributing 1.3% to world maritime trade volume and merchant shipping tonnage. MISC Bhd is the world's largest owner/operator of gas tankers and a major global player in energy shipping, while Petronas is a key player in offshore exploration and production with operations worldwide.

Despite these facts, it has been a matter of concern for the Government and stakeholders in the local shipping industry that the level of national merchant shipping tonnage still 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. According to Malaysia Shipowners Association (MASA), 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 in the nation's current account.

This situation inevitably puts the spotlight on the adequacy of the shipbuilding industry to provide the tonnage to support the nation's ever-growing trade volumes and to cater to demand from abroad. The shipbuilding industry has been identified as a strategic industry 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, key industries such as shipbuilding must come to the fore to help the country to attain global competitiveness.

Malaysia has set a target of enhancing domestic capabilities in the construction of smaller vessels of up to 30,000 DWT. In this respect, some yards capable of building such vessels are already doing well to serve the export markets. Efforts are also being made to encourage greater involvement in ship repairing and maintenance activities at local yards via the introduction of various incentives, and to upgrade the skills or personnel. Yards specializing in the fabrication of offshore structures have expanded their capacity and increased their capabilities to build and service bigger and more sophisticated structures.

## **Overview of the Malaysian shipbuilding industry**

The shipbuilding industry in Malaysia provides the backbone for the development of merchant shipping in Malaysia. Developing adequate tonnage in merchant shipping is a matter of national importance as 80% of Malaysia's international trade depends on seaborne transport, and the nation is highly dependent on foreign made vessels to carry much of its international trade.

The industry is also an important source of employment and provides a platform on which skills in various activities such as naval architecture, engineering, welding and fabrication, are developed. Additionally, it 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.

In the Third Industrial Master Plan 2006-2020 (IMP3), shipbuilding industry in Malaysia is identified as a strategic industry by the Malaysian government. To boost its growth and development, the IMP3 has outlined several strategic thrusts for the Malaysian shipbuilding industry. They include:

- 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 supports; and
- expanding activities in the fabrication of offshore structures

The number of shipyards in Malaysia with manufacturing licenses has grown over the years, but the industry in general is fragmented and the majority of the players are small shipyards which are labor-intensive and operate on a small-scale basis, building vessels mainly for the local market and for use in the shallow waters.

Reputable local yards are capable of building and servicing vessels of considerable size. Some can even build patrol vessels, OSV (offshore supply vessels), passenger vessels and leisure crafts for the export market. Large fabricators can build specialized vessels such as FPSO (floating production storage offshore vessels) and provide high-end services for the offshore oil and gas sector. However, local orders for larger and more sophisticated vessels are still placed with foreign shipyards which have the capacity and are technically more adept at building such vessels.

## **Overcoming challenges**

Malaysian shipyards face many challenges to enhance their competitiveness. These include addressing the shortage of skilled labour, enhancing the application of technologies, improving turnaround time, offering better quality of products and services at competitive rates, overcoming lack of economies of scale and high prices of imported raw materials, obtaining adequate and competitive financing, and fending off competition from regional yards. However, they cannot do it alone. As the shipbuilding industry has been designated as a strategic industry that can facilitate the growth of trade and economic development in Malaysia, it is essential that efforts

are made to bolster the capacity and performance of the sector by way of long term planning, offering attractive incentives to industry players and providing sustained support for the development of the industry. Malaysia could also learn from the successful experience of leading shipbuilding nations.

Despite the challenges, there is bright prospect in several segments in the shipping trade. For example, there is high demand for new vessels in the OSV sector thanks to the spate of E&P activities in offshore oil and gas sites, especially in the deepwaters off the coast of Sabah and Sarawak. These projects are poised to generate a high demand for various types of offshore vessels. The growing popularity of marine tourism will also see growing demand in leisure crafts such as yachts, catamaran, sailboats and passenger vessels which some local yards are capable of building. The demand for these vessels and shipping services also provides opportunities not only for shipyards but for equipment manufacturers and maritime support services providers alike.

All the stakeholders in the marine industry, including policymakers, financiers, manufacturers, service providers, shipowners and shippers must close ranks to spur the development of the shipbuilding industry. There is enormous potential for leading Malaysian shipyards to tap into the growing demand for shipping services at home and abroad, and leverage on their advantages such as strategic location, strong institutional support, competitive costs and international reputation as quality makers of certain types of vessels. The onus is for them to improve their product and service offering to help Malaysia realise its ambition of becoming a self-sufficient and competitive maritime nation.