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### **Impact of US-China Trade Tensions, the Coronavirus, and the Plunge of Oil Prices on the Malaysian Maritime Transportation Industry**

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*Malaysia's maritime transportation industry has seen growth from the benefits of the nation's strategic location, well-developed infrastructure, and buoyant economy. Recently, this growth has lost its momentum since it became affected by the US and China trade tensions, the Coronavirus pandemic, and the plunge in oil prices. The trade tensions affected Malaysia's ports handling exports to China. The plunge of oil prices affects demand for bunker oil due to reduced shipping activities. Meanwhile, the Coronavirus pandemic has disrupted port operations. As solutions for these impacts, this paper recommends a diversified supply chain, logistics-centric port, a comprehensive bunkering strategy, and strict compliance to IMO's conventions.*

## **Introduction**

The maritime transportation industry in Malaysia has been growing steadily in the last decade since 2018. According to the Review of Maritime Transport 2019, Malaysia's Port Klang and Port of Tanjung Pelepas (PTP) are the 12<sup>th</sup> and 18<sup>th</sup> leading global container ports, respectively. The report also ranked Malaysia's shipping sector in the 31<sup>st</sup> position in terms of ship ownership by Dead Weight Tonne (DWT). (UNCTAD, The United Nations Conference on Trade & Development, 2019). The ports and shipping industry is experiencing a relatively buoyant climate, attributed to the improvement in the global maritime transportation market, driven by better freight rates across all shipping segments.

The rapid development of the maritime transportation industry in Malaysia can be credited to the nation's strategic location on the Asia-Europe shipping route, as well as its infrastructures, and buoyant oil and gas industry. As a maritime nation, more than 80% of the nation's total trade depends on ports and shipping, while the oil and gas industry contributes approximately 20% to the government's revenue.

Recently, Malaysia's maritime industry has been affected by the onslaught of three major crises, specifically the US and China trade war, the Coronavirus pandemic, and the plunge in oil prices. Instantaneously, Malaysia's ports, shipping, and bunkering sectors find themselves having to sustain in an unprecedented situation, now commonly termed as the 'new normal'. In this challenging environment, the industry must not only comply with the International Maritime Organisation's (IMO) conventions on low sulphur and port facilitation but also to adapt to the 'new normal'. This paper aims to analyse the impact of these crises on the industry and provide suggestions for the ports, shipping, and bunker sectors to operate post-pandemic.

## **Background**

Malaysia's maritime transportation industry has been growing steadily over the years in tandem with the thriving global economy. As a maritime nation, Malaysia's premier ports, namely Port Klang and PTP has achieved 12.03 million and 8.79 million Tonne Equivalent Units (TEUs) respectively while the nation's ship ownership has reached 8.732 million Dead Weight Tonne (DWT) last year.

Since early 2020, the global economy has been badly hit by three unprecedented crises, namely the escalating tariff tensions between the US and China, the outbreak of Coronavirus pandemic and its lockdown measures, and the heightened plunge in oil prices. The onslaught of these crises pushed many countries into recession, with the International Monetary Fund (IMF) predicting the worst economic downturn since the 1913 Great Depression ([AFP, 2020](#)). Many countries have since tried to safeguard their economy by providing economic stimulus packages.

As a trading nation, Malaysia could not escape from the impact of the US-China trade tensions, the Coronavirus pandemic, and the plunge in oil prices. The World Bank had

projected Malaysia's economy to contract by 0.1% to 4.6% amid the negative impact brought on by the Coronavirus pandemic (ARUNA, 2020). Though temporarily relieved by the government's stimulus packages, many sectors in the economy including the maritime transportation industry, remain uncertain in surviving the post-pandemic environment. Prime Minister Tan Sri Muhyiddin Yassin had stressed that going forward, Malaysians would need to adjust to a 'new normal' (Adib Povera, 2020).

## **Objective**

This paper aims to analyse the impact of three crises, specifically the US-China trade war, the Coronavirus pandemic, and the plunge in oil prices on the maritime transportation industry in Malaysia. It will suggest recommendations for the ports, shipping, and bunkering sectors to innovate and adapt to the 'new normal' while complying with the IMO's conventions on low sulphur and port facilitation. With these objectives, this paper is structured as follows:

- a. Challenges in the global economy and the impact of the crises on global maritime transportation
- b. The impact of the crises on Malaysia's maritime transportation:
  - 1) The US-China trade tensions
  - 2) The Coronavirus pandemic
  - 3) The plunge in oil prices
- c. Recommendations for Malaysia's maritime transportation:
  - 1) Diversified economy
  - 2) Logistics-centric port
  - 3) Comprehensive bunkering strategy
  - 4) Compliance to IMO's conventions

## **Challenges in the Global Economy**

The global economy was first hit by the US-China trade war last year, subsequently the Coronavirus pandemic, as well as the plunge in oil prices. In the US-China trade tensions, the US initially raised tariffs of China's imports from 10% to 25%, and later tariffed another 10%. There were winners when the US moved to Vietnam, South Korea, Thailand, India, and Mexico for imports. On the other hand, countries like Malaysia which supplied raw materials and semi-finished goods to China to be shipped to the US as finished goods were losing out.

With the Coronavirus pandemic, sectors ranging from airlines to accommodation services, to manufacturing, and to farming are all affected by lockdowns. The face of the global economy is now shifting towards the new environment, which entails new trends in the way of doing business. Coincidentally, oil prices took a plunge due to over-production by major oil-producing countries, limited storage space, and low demand for oil, as industries are slowing down during the lockdown.

## The Impact of the Crises on Global Maritime Economy

The US-China trade tensions significantly reduced the cargo volume between the two major economies on the Trans-Pacific sea lane. It also affected the shipping of goods for countries that supply raw materials and semi-finished products to China. There was, however, an incremental increase in cargo volume from Vietnam and Thailand to the US.

The Coronavirus pandemic and its lockdown measures badly hit the ports, shipping, and bunkering sectors. In the bunkering sector, traders in Rotterdam, Fujairah, Singapore, and Zhoushan are facing low demand for bunker oil as shipping lines are cancelling their voyage bookings due to reduced cargo.

## The Impact of the Crises on Malaysia's Maritime Transportation

In Malaysia, the maritime transportation industry is unable to escape from the impact of the US-China trade tensions, the Coronavirus pandemic, and the plunge in oil prices. The impact of these crises is as described below:

- a. **The US-China Trade Tensions.** The escalating tariffs between the US and China have shifted imports away from China, which in turn affects countries like Malaysia, which supplies raw materials and semi-finished products to China. In Malaysia, Penang Port had a slight decline in container throughput last year as the port was handling semi-finished products manufactured in the northern region to be shipped to China.
- b. **The Coronavirus Pandemic.** Malaysia enforced the Movement Control Order (MCO) in response to the Coronavirus pandemic. During the initial phase of the MCO, port operations were abruptly disrupted as port workers were restricted to their homes. After an intervention by the Ministry of Transport, port operations resumed allowing freight forwarding, hauliers, and transport services to clear the essential and medical supplies. In the later phase of MCO, ports resume normal operations to allow all other economic sectors and sub-sectors to resume business. However, cruise ships remain prohibited from ports while crew change procedures are tightly controlled, to avoid the spread of the virus.
- c. **Low Demand for Bunker Oil.** Although prices have plunged deeply, the demand for bunker oil is still low as shipping lines are cancelling their bookings now that there is less demand in cargo shipping during the MCO. In some bunkering hubs, demand is so low that some oil tankers are being utilised as storage space. In Singapore, heavily indebted oil traders Hin Leong Trading filed for bankruptcy protection after facing a credit crunch ([Rebello, 2020](#)). The low demand for bunker oil is also affecting bunkering industry in Malaysia.

## Recommendations

These three crises have certainly impacted the maritime transportation industry in Malaysia. The following are recommendations for the industry to adapt to the 'new normal':

- a. **Diversified Supply Chain.** Impacted by the US-China trade tensions, Malaysia should diversify its economy and not overly depend on any particular supply chain. Manufacturers should produce finished products rather than semi-finished products. Free Trade Zone (FTZ), industrial zones, and bonded warehouses are to be set up within the port limits to remanufacture, repackage, and re-export finished products directly to their destination countries.
- b. **Logistics-centric Port.** Ports normally focus on generating container throughput, and their performance can be measured by Key Performance Indicators (KPI) such as ship turnaround time, crane moves per hour, and yard's utilisation. Ports could learn from the Coronavirus pandemic to look beyond container throughput and KPIs. Post-pandemic, ports should focus on the logistics of clearing container cargo which is currently handled by freight forwarders, hauliers, and transport companies.
- c. **Comprehensive Bunkering Strategy.** Even though Malaysia has a relatively less bunkering business compared to Singapore, the country has the advantage of a strategic location, low operating cost, and is one of the main producers of Liquefied Natural Gas (LNG) in the region. Ships calling on its two premier ports, Port Klang and PTP, will naturally need bunkering and other related marine services. Therefore, Malaysia needs a comprehensive strategy to be a bunkering hub. In crafting this strategy, Malaysia must incorporate lessons learnt from the problems faced by bunker traders during the recent low demand for bunkering oil and plunge in oil prices. Bunkering traders must have sufficient capital to anticipate potential disruption to the business.
- d. **Compliance with IMO's Conventions.** Malaysia's ports and shipping sector must comply with IMO's conventions on port facilitation and low sulphur. Even faced with the Coronavirus and expected economic downturn, international communities are still concerned about climate change. Therefore, Malaysia's ports and shipping sector must continue to strive for better port facilitation through port community networks and the use of low sulphur and low carbon fuel. The compliance with IMO's Conventions will boost Malaysia's status as a maritime nation.

## Conclusion

The onslaught of the three crises has significantly affected the global economy. The Coronavirus pandemic alone has caused the worst economic downturn since the Great Depression. The World Bank projected that due to the pandemic, Malaysia's economy will contract from 0.1% to 4.6%. The government must utilise economic stimulus packages to cushion the impact of the pandemic by protecting the economy and employment.

For the maritime transportation industry in Malaysia, the US-China trade tensions have caused a decline in container throughput in Penang Port, where semi-finished products heading to China were handled. The Coronavirus pandemic is now causing ports to refocus on logistics handled by freight forwarding, hauliers, and transport services. The plunge in oil prices and low demand in bunker oil is a lesson learnt for crafting Malaysia's

bunkering strategy. Bunker traders must have sufficient capital to anticipate potential risks in the business.

As highlighted by Malaysia's Prime Minister, all economic sectors must adjust to adapt to the 'new normal' post-pandemic. Likewise, the ports, shipping, and bunkering sectors must adapt to the new environment by adopting a more diversified supply chain, logistics-centric ports, and drafting a comprehensive bunkering strategy while complying with the IMO's conventions for better port facilitation and cleaner fuel.

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