

## Malaysia's Development Depends on International and Domestic Support for Maritime Connectivity

By Hanizah Idris

Southeast Asia consists of two portions, mainland Southeast Asia and maritime Southeast Asia. More than 80 percent of the region's surface is covered by the ocean, which means that maritime connectivity is crucial for the development of trade and transportation. The region contains several of the world's busiest international sea lines of communication. Several major ports are located there, namely, the Port of Singapore and Port Klang and Port of Tanjung Pelepas (PTP) in Malaysia. The Strait of Malacca receives an average of 80,000 vessels annually.

The rise of containerized shipping continues to have a strong impact on the development of Southeast Asia. Major shipping companies developed truck-compatible, standardized containers, which ushered in significant cost reductions. According to UNCTAD, since 1990 container trade is estimated to have increased by a factor of five, which is equivalent to an average annual growth rate of 9.8 per cent. By 2009 Asian container trade accounted for almost 60 percent share of world container throughput, with East Asian countries as the dominant sub region. Singapore and Malaysia have adapted quickly to this innovation. The leading ports in the region — Port Klang and Singapore — have adopted new infrastructure development plans to provide state of the art facilities and equipment to cope with the growth of traffic. Malaysia and Thailand have built new container ports, namely, the port of Tanjung Pelepas (PTP) and Laem Chabang, respectively.

One of the major challenges for governments is to provide and upgrade facilities to cater to the increase in vessel size and to the corresponding pressures that container ships place upon physical space and some aspects of cargo handling. Larger ships mean investment is needed in bigger cranes that can reach out to collect the furthest container from the berth. Ports are capital-intensive industries by nature. They require dredging, construction, feeder roads and airports, warehouses, and energy supplies. These pose great challenges to Southeast Asian countries in terms of connectivity, especially with respect to narrowing the gaps between countries (as opposed to connecting with regional trading networks centered elsewhere). Port expansion has become crucial and huge investments are needed to finance new infrastructure projects. In 2015, the World Bank and Asia Development Bank (ADB) combined gave out loans worth \$55 billion, which falls far short of the \$8 trillion that the ADB forecast would be needed between 2010 and 2020 to meet Asia's infrastructure development requirements.

A number of infrastructure development and expansion projects have been announced, launched, or completed, with a view to improving connectivity. Such initiatives include China's Belt and Road Initiative and the joint Japan-Asian Development Bank Partnership, both of which have the potential to stimulate growth, boost trade and drive up demand for transport and logistic services. The China-led Asian Infrastructure Investment Bank (AIIB) is a new multilateral financial institution founded to support the building of infrastructure in the Asia Pacific region including Southeast Asia, a region in which Japan and the United States have traditionally been the key external economic players.

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Head of the  
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Malaysia is one of the countries that benefits from these initiatives. Examples include the investment in the Malaysia-China Kuantan Industrial Park (MCKIP), which features a deep water port, steel and aluminum plants, and a palm oil refinery with a total investment of \$1 billion. Chinese investors already have a 40 percent stake in Kuantan Port on the eastern side of peninsular Malaysia, facing the South China Sea. The port is currently undergoing expansion to cater to ships up to 150,000 dead weight tons. With an investment of \$750 million from the private sector and \$250 million from the government, major port expansion is being undertaken by IJM's Corporation Bhd, a local corporation that owns 60 percent of Kuantan Port Consortium. The port and the park will leapfrog the economic growth of the East Coast Economic Region (ECER), which comprises Pahang, Terengganu and Kelantan—areas targeted in the 11th Malaysia Plan (2016-2020). Once the East Coast Rail Link is completed within 5 years, growth momentum will be quickened. MCKIP has a critical advantage as an industrial park due to its location close to Kuantan Port, which is being developed into a shipping hub to boost Malaysia-China trade.

Changes such as these are having an impact on the domestic political economy of the entire subregion, not just Malaysia. The lack of adequate infrastructure has held back the economic development of poorer ASEAN member states, notably Cambodia, Lao PDR, Myanmar and Indonesia. Huge investments are needed, mainly in power and infrastructure development. ASEAN as an organization has adopted several measures such as the Master Plan on ASEAN Connectivity, but funding remains inadequate. On a more positive note, private investment and public-private partnerships (PPPs) in the region are increasing, mainly in transport, infrastructure (railways and port terminals), and the power sector.

However, infrastructure plans in the region differ between countries and also in terms of magnitudes and sectors. Malaysia and Singapore already possess high-quality infrastructure thanks to significant investments made in the past, including investments in maintenance and upgrades. In the case of Malaysia, port privatization has long been championed, and the government has actively sought to attract the expertise of global firms. The investments of Maersk-Sealand in the PTP and Hutchinson in Westport at Port Klang have boosted operational efficiency, competitiveness and cargo volumes at these ports. PTP is 30 percent owned by the shipping line Maersk-Sealand. In 2016, Port Klang experienced tremendous growth of 10.8 percent compared to 2015, which meant that it overtook Rotterdam as the eleventh leading port worldwide. This growth is due to strong support from the shipping and logistics community, which includes the Ministry of Transport, the Malaysian Ship Owners Association (MASA), and Malaysian shipping agencies.

Kuala Lumpur has succeeded in capturing increasing amounts of transshipment container volumes through its premier ports in peninsular Malaysia, but little emphasis has been given to the development of secondary ports located in Sabah and Sarawak. These regions play an important role in facilitating trade and economic development in the hinterlands and in transporting goods. This gap is due to a lack of effective and integrated government policy on promoting trade competitiveness, increasing transport efficiency, and better integrating Peninsular Malaysia, Sabah and Sarawak domestically and internationally. Ports in Sabah and Sarawak have considerable potential for growth given the increase in their throughput volumes over the past decade, particularly for container cargo. The ports of Kota Kinabalu and Sepanggar Bay in Sabah could become significant maritime hubs due to their strategic location in the East ASEAN Growth Area of Brunei, Indonesia, Malaysia, the Philippines, and Timor Leste (BIMP-EAGA), which is one of the most important economic corridors in the region. Sabah should therefore play an active role in subregional economic cooperation to capture more trade and enhance its connectivity with ports in greater East Asia. Finally, federal and state governments should consider extending funds, incentives, assistance and support to ports in Sabah and Sarawak to enable them to contribute to the economic growth of the area and hence to boost Malaysia's economy.

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