Abstract

The Malaysian Government has identified 12 National Key Economic Areas (NKEAs) to achieve the New Economic Model (NEM) aspirations in generating high-income, value-adding, innovation-driven, and knowledge-based economic activities by 2020. However, the maritime sector is not included as one of the NKEAs. Given the significance of the maritime sector to the Malaysian economy, maritime industry players should make a case for the sector to be included as an NKEA. This paper identifies several maritime support services activities that meet the goals of the NEM. Among them include maritime financing; maritime education and training; and maritime support services for the offshore oil and gas sector. The paper argues in favour of promoting these activities as they can generate high-income and are characterised by their value-adding, innovation-driven and knowledge-based features. These are in line with the aspirations of NEM which envisions a Malaysian economy which is globally competitive and whose growth is propelled not just by capital but by productivity. In promoting those activities, the paper also spells out policy options on how these activities can be undertaken, promoted and encouraged in Malaysia, in line with the targets of NEM and in fulfilment of its aspirations. It concludes by stating that Malaysia has the ingredients to move up the value chain in the maritime sector, and that promoting maritime support services activities that meet the goals of the NEM is also consistent with efforts to make Malaysia a globally competitive nation as aspired by the Third Industrial Master Plan.

Keywords: Malaysia maritime sector; Vision 2020; New Economic Model; 10th Malaysia Plan; National Key Economic Area
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<th>Description</th>
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<tbody>
<tr>
<td>10MP</td>
<td>Tenth Malaysia Plan</td>
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<tr>
<td>3PL</td>
<td>Third party logistics</td>
</tr>
<tr>
<td>4PL</td>
<td>Fourth party logistics</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
</tr>
<tr>
<td>DP</td>
<td>World Dubai Ports World</td>
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<tr>
<td>E&amp;P</td>
<td>Exploration and production</td>
</tr>
<tr>
<td>EDI</td>
<td>Electronic Database Interchange</td>
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<tr>
<td>EPU</td>
<td>Economic Planning Unit</td>
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<tr>
<td>EPPs</td>
<td>Entry-Point Projects</td>
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<tr>
<td>ETP</td>
<td>Economic Transformation Programme</td>
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<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
</tr>
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<td>FPSO</td>
<td>Floating Production Storage and Offloading</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GLC</td>
<td>Government Linked Companies</td>
</tr>
<tr>
<td>GTP</td>
<td>Government Transformation Programme</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and communication technologies</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
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<tr>
<td>IMC</td>
<td>International maritime centre</td>
</tr>
<tr>
<td>IMO</td>
<td>International Maritime Organisation</td>
</tr>
<tr>
<td>IMP3</td>
<td>Third Industrial Master Plan</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>JIT</td>
<td>Just-in-time</td>
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<tr>
<td>KPI</td>
<td>Key Performance Index</td>
</tr>
<tr>
<td>MKPIs</td>
<td>Ministerial KPIs</td>
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<tr>
<td>MKRAs</td>
<td>Ministerial Key Result Areas</td>
</tr>
<tr>
<td>MLOs</td>
<td>Main line operators</td>
</tr>
<tr>
<td>MMHE</td>
<td>Malaysia Marine and Heavy Engineering</td>
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<tr>
<td>MOT</td>
<td>Ministry of Transport</td>
</tr>
<tr>
<td>NEAC</td>
<td>National Economic Advisory Council</td>
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<tr>
<td>NEM</td>
<td>New Economic Model</td>
</tr>
<tr>
<td>NKEA</td>
<td>National Key Economic Area</td>
</tr>
<tr>
<td>NRAs</td>
<td>National Key Result Areas</td>
</tr>
<tr>
<td>O&amp;G</td>
<td>Oil and gas</td>
</tr>
<tr>
<td>OSV</td>
<td>Offshore Service Vessel</td>
</tr>
<tr>
<td>P&amp;I</td>
<td>Protection and Indemnity</td>
</tr>
<tr>
<td>PEMANDU</td>
<td>Performance, Management and Delivery Unit</td>
</tr>
<tr>
<td>PSA</td>
<td>Port of Singapore Authority</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and development</td>
</tr>
<tr>
<td>SRI</td>
<td>Strategic Reform Initiatives</td>
</tr>
<tr>
<td>SWOT</td>
<td>Strengths, weaknesses, opportunities, threats</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
<tr>
<td>VDP</td>
<td>Vendor development programme</td>
</tr>
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<td>WTO</td>
<td>World Trade Organisation</td>
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</tbody>
</table>
Executive summary

1. **Introduction**

This executive summary contains the main findings and recommendations of the report entitled, ‘Making a Case for the Maritime Sector to be Included as One of the National Key Economic Areas in the New Economic Model’. The key objectives of the study are to highlight the need for the maritime sector to be included as a National Key Economic Area (NKEA), and to identify several specialised maritime services that meet the goals of the New Economic Model (NEM) in an effort to make Malaysia a competitive player in the maritime sector.

2. **Overview of the New Economic Model**

Malaysia has announced its bold ambition to attain developed nation status by 2020. To achieve this target, it has to take a different path in the planning and execution of its economic development agenda. This entails creating high-income economic activities and moving up the value chain by increasing productivity, innovation and efficiency in all sectors of the industry, as spelled out by the NEM which seeks to transform the Malaysian economy into one with high income and quality growth over the next decade.

A special outfit under the Prime Minister’s department, the Performance, Management and Delivery Unit (PEMANDU) has been set up to spearhead the Economic Transformation Programme (ETP) to help reshape the nation’s economy towards attaining its objective of becoming a fully developed nation by 2020. ETP provides a roadmap for Malaysia to undertake a new path in economic development towards transforming its economy to compete more effectively in today’s globalised, liberalised and ultra competitive world.

The 10th Malaysia Plan (10MP) spells out the aspiration of the government to improve infrastructures, human capital development and innovation in various key economic sectors as a means to attain global competitiveness. 10MP is formulated with various new approaches towards enabling Malaysia to become a high-income and high-productivity economy, in line with the NEM.

![Image of Figure ES-1: NEM and its aspirations](image-url)

*Figure ES-1: NEM and its aspirations*

*Source: PEMANDU*
The foundation of the 10MP is the NEM which is needed to increase the sector’s competitive level amid rising competition from neighbouring countries to attract shipping lines at their ports, for their ports to handle more cargos and for the local maritime sector to facilitate more trade volumes. Figure ES-1 shows the NEM targets.

The Malaysian Government has identified 12 NKEAs to drive and transform its economy to achieve the NEM aspirations. NKEAs cover 11 growth sectors and one geographical area, namely Kuala Lumpur. However, the maritime sector is not included as one of the NKEAs. Given the importance of the maritime sector to the nation’s economy, maritime industry players should make a case for the sector to be included as an NKEA.

3. **Suggested activities in the maritime support services sector that meet NEM goals**

Several key maritime activities that can be promoted in Malaysia to meet the aspirations of NEM are summarised as follows:

i. **Maritime financing**
   Introduce more financing alternatives (i.e. for purchase of vessels, port development and shipyard expansion), and leverage on Malaysia’s strong financial system and on its leadership in Sharia financing.

ii. **Shipyard services**
   Capitalise on the strength of niche yards in building leisure crafts, offshore structures, offshore service vessels (OSV), and floating production storage and offloading (FPSO).

iii. **Marine leisure industry services**
   Capitalise on Malaysia’s advantages of the existing marinas to attract more boaters and promote marine leisure industry.

iv. **Integrated logistics services**
   Provide integrated logistics services including multimodal transport to cater to just-in-time (JIT) production and demand for door-to-door delivery. Focus should also be given on niche services i.e. halal logistics, cold chain logistics, energy industry logistics, green logistics, and reverse logistics.

v. **Offshore oil and gas support services**
   Leverage on Malaysia’s experience in offshore oil & gas (O&G) industry and exploration and production (E&P) activities in Malaysian waters, and on PETRONAS’ leadership in deepwater activities.

vi. **Supply chain management**
   Provide supply chain management services and solutions for players in the maritime sector.

vii. **Port development and management**
    Emulate the likes of Port of Singapore Authority (PSA) and Dubai Ports World (DP World) to develop and manage ports in other countries.
viii. Reducing emissions and managing energy use
Develop solutions to green the maritime sector, to attain efficient use of fuel and explore alternative / renewable energy sources.

ix. Maritime education and training
Beef up infrastructures i.e. academics, training institutes, university faculties, and set up a dedicated maritime university.

x. Tax and legal advisory
Capitalise on experience and track record of leading Malaysian-based legal and tax firms in maritime financing.

The competitiveness level of the maritime sector is assessed by undertaking a SWOT (strengths, weaknesses, opportunities, threats) analysis of the sector (Table ES-1).

Table ES-1: SWOT analysis of the competitive level of the maritime sector

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strategic location in the Straits of Malacca</td>
<td>• Maritime sector lacks ownership from the government to help champion its course in development</td>
</tr>
<tr>
<td>• Lucrative maritime sector which all businesses can tap on</td>
<td>• Insufficient physical and non-physical infrastructures to support the direct maritime activities, e.g. port operations, shipping and shipbuilding activities, has benefited foreign companies as local industry players need to import equipment and bring in experts from overseas</td>
</tr>
<tr>
<td>• Available knowledgeable and experience maritime industry players who have strived on their own to sustain the industry with minimal support from the Government</td>
<td>• Lack of support for products and services which are provided by locals and therefore have no economic of scale from domestic market</td>
</tr>
<tr>
<td>• Supply of knowledgeable and capable local maritime legal experts</td>
<td>• Lack of sufficient government fund to promote the maritime sector</td>
</tr>
<tr>
<td>• Availability of superior infrastructures (e.g. telecommunication, utilities, transportation)</td>
<td>• Available incentives and funding are not well structured and lack clear guidelines. Most of the funding for R&amp;D is being tapped by universities which are more academic rather than industry oriented.</td>
</tr>
<tr>
<td>• Abundance of low cost labour and other utilities such as fuel, water and electricity</td>
<td>• Lack of maritime financing in marine hull &amp; machinery, and protection and indemnity (P&amp;I) insurance, forces the marine leisure players to use foreign crews</td>
</tr>
<tr>
<td>• Political stability</td>
<td>• Lack of professionals especially in the field of maritime law and naval architecture and designing as local universities provide limited courses relating to maritime sector</td>
</tr>
<tr>
<td>• Good education system which is on par with international standards</td>
<td>• Lack of exposure and experience among local experts due to less opportunities to practice in maritime cases</td>
</tr>
<tr>
<td>• Set up of admiralty court to deal exclusively with shipping and maritime-related matters would encourage the growth of legal services in the country</td>
<td></td>
</tr>
<tr>
<td>Opportunities</td>
<td>Threats</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>• Growing demand of the maritime sector</td>
<td>• Fast catch up by neighbouring countries on the activities of maritime sector. The Philippines and Vietnam are ranked among the world’s top ten shipbuilding nations but Malaysia having 60 years of experience is still far behind.</td>
</tr>
<tr>
<td>• Some available maritime activities are highly innovative in nature and contributes to value-adding aspect of the sector</td>
<td>• Emerging ports in the region, e.g. new deepwater container terminal in Vietnam and Hambantota Port in Sri Lanka, may cause local ports to lose businesses</td>
</tr>
<tr>
<td>• Ratification of IMO Conventions concerning shipping and environment would present opportunities for manufacturers in the maritime sector to create innovative solutions e.g. ballast water management systems</td>
<td>• Stiff competition from Singapore which can provide more efficient services as it is an open economy and have large pool of expertise to work in this areas</td>
</tr>
<tr>
<td>• Further advancement of the maritime sector would provide huge potential for employment of skilled workforce particularly in the ‘soft’ side of the sector to generate high-income economy</td>
<td>• Brain drain of local experts and professionals to Singapore as they have brighter prospects there (i.e. higher pay and more exposure)</td>
</tr>
<tr>
<td>• Provision of consultancy and advisory services to foreign companies which have interest in doing maritime business in Malaysia, especially in the oil and gas industry</td>
<td></td>
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</table>
5. *Policy options for Malaysia’s maritime sector to meet NEM goals*

Several policy options that can be considered in promoting maritime activities are as follows:

i. Develop a strategy / plan of action to align the maritime sector to NEM’s aspirations.

ii. Offer a set of incentives to encourage companies to offer such services.

iii. Invest in skills and talent.

iv. Inculcate and promote a strong research and development (R&D) culture.

v. Consolidate certain sectors to attain economies of scale and better regulation.

vi. Encourage local companies / users of services, especially Government Linked Companies (GLC) to use the services of local companies.

vii. Boost the use and application of technology and information and communication technologies (ICT).

viii. Create an entrepreneurial, open and competitive business environment.
1. Introduction

1.1. Background

Malaysia has announced its bold ambition to become a developed nation by 2020.¹ To attain this target, the country has to take a different path in the planning and execution of its economic development agenda. This entails creating high-income economic activities and moving up the value chain by increasing productivity, innovation and efficiency in all sectors of the industry. This is spelled out by the New Economic Model (NEM) which seeks to transform the Malaysian economy into one with high income and quality growth over the next decade.

A special outfit under the Prime Minister’s department, the Performance, Management and Delivery Unit (PEMANDU) has been set up to spearhead the Economic Transformation Programme (ETP) to help reshape the nation’s economy towards attaining its objective of becoming a fully developed nation by 2020. ETP provides a roadmap for Malaysia to undertake a new path in economic development towards transforming its economy to compete more effectively in today’s globalised, liberalised and ultra competitive world.

Malaysia can proudly boast of significant achievements in the maritime sector². It has in its midst some world-renowned names in the sector, such as Port Klang and Port of Tanjung Pelepas which have consistently made the list of top 20 container ports by way of throughput handled; MISC Berhad which is the world’s largest owner/operator of gas tankers and the world’s third largest shipping company in terms of market capitalisation; Bintulu Port which is the world’s largest gas exporting terminal; and Johor Port, the world’s largest palm oil export terminal.

However, there is a general feeling that these achievements can be easily emulated and surpassed by other ambitious maritime nations which enjoy similar or better advantages and lower cost of production. Malaysia should not cling on to the marginal leads it currently enjoys and must strive to adopt a ‘Blue Ocean’³ strategy to ensure its competitiveness in the crowded and competitive field of the maritime industry. This demands local players and planners in this industry to strive to provide services that offer unique proposition and value to clients, instead of off-the-mill, easily duplicated and high investment, low-margin services such as shipping and port services. The areas in the maritime industry which Malaysia has done well are not exactly the kind of activities aspired by NEM and the 10th Malaysia Plan (10MP) 2011-2015 that can help transform Malaysia’s economy into a high-income, value-adding, innovation-driven one that can help the nation attain fully developed status by 2020.

Developments in shipping and trade and advances in technology require qualified personnel to work a growing range of areas in the maritime sector, not just in ‘traditional’ activities such as ports, shipping and shipbuilding. Changing dynamics in the maritime industry, tougher legislations in aspects such as maritime security and environmental protection, increasing reliance on technologies, and growing demand for specialised solutions by stakeholders in the maritime industry demand a wide array of services good level of competency and specialisation among maritime personnel.

Given this, it is essential that Malaysia undertake serious efforts to enhance the competency of its manpower to support its growing maritime sector. To become a truly competitive maritime
nation, Malaysia must provide a wide range of specialised maritime services that will attract more shipping lines and maritime industry players to the country. It is imperative that Malaysia makes available the right technical and commercial competence of its human capital onshore and offshore to ensure that the country does not slip off the competitiveness ranking among maritime nations and can lure more shipping lines to our shores.

As competition among regional ports to attract shipping lines and handle maritime trade intensifies, countries that want to remain competitive must stay ahead of the pack and offer value-added specialised maritime support services. Among such services are supply chain management, logistics services, commercial and technical management of ships, providing environmental solutions to shipping companies, security and safety consultancy, hull care, dry docking, engine optimisation, crane maintenance, vessel accounting, ship design and energy transportation solution, among many others. These are areas which require well-trained and highly skilled workers which Malaysia would do well to focus on nurturing if it wants to become a competitive maritime nation.

The importance of doing so becomes clear when one takes into account that competition in the maritime sector is increasing and Malaysia cannot compete with countries that have advantages such as cheap labour cost and economies of scale which the likes of China and India enjoy. Malaysia must break away from providing ‘plain vanilla’ labour intensive maritime services and start investing in developing and nurturing the manpower to cater to high-end, specialised and high-revenue generating activities in the maritime sector in order to remain competitive.

For that to happen, Malaysia needs to re-align its maritime sector to develop the ‘soft-side’ of the sector. To do so, there must be in place a well-defined strategy, infrastructures, conducive environment to promote research and development (R&D), innovation, entrepreneurship and risk-taking, and strong leadership and public-private partnership. Above all, there must be a mindset and attitudinal change among local players in the maritime sector from relying on cheap labour and cost advantage to a strong desire to serve bigger customers and to compete on the global marketplace.

1.2. Objectives

The objectives of this study are as follows:

- to highlight the need for Malaysia to step up the value chain in the maritime industry by providing specialised maritime services to become a truly competitive maritime nation
- to identify various specialised maritime services that local maritime companies should get involved in, which are within their grasp to provide and are relevant to the needs of the industry
- to underscore the need for the maritime sector to be included as an National Key Economic Area (NKEA)
- to recommend ways to encourage the participation of local companies in offering those services and to facilitate the provision of those services through policy recommendations
In attaining the objectives, the study identifies and argues in favour of having several key maritime support services in Malaysia to enable its maritime sector to attain the aspirations of NEM and 10MP. This is done by first assessing the competitiveness level of the sector by undertaking a SWOT (strengths, weaknesses, opportunities, threats) of the maritime sector. The study provides recommendations on what services should be introduced to attract mainline operators to local ports, to improve last-mile connectivity of local ports and other modes of transport, to position Malaysia as a logistics and shipping hub, to increase the integration of local supply chains with the international and global ones, and to enable Malaysian companies in the maritime sector to compete globally.

The study will be mindful of the fact that many internationally-renowned non-Malaysian companies are already providing a host of high-income, value-adding, innovation-driven activities in the maritime sector. It will take some effort for Malaysian companies to challenge, let alone unseat, their dominance. However, the study will endeavour to identify several activities in the maritime sector that Malaysian companies stand a good chance in excelling and making waves on the international stage, based on their existing track records, the demand of the marketplace and various other features and advantages in Malaysia’s favour. Among such services are integrated logistics services, maritime financing (especially Sharia financing), maritime supply chain management, naval architecture, port design and management, maritime consultancy, and maritime education and training.

1.3. Significance of the study

The findings of the study should provide valuable leads to industry players and policy options to the government towards enhancing the competitiveness of the maritime industry. The findings should also help the industry fulfil the aspirations of NEM to create high-income, value-adding activities to elevate Malaysia’s economy to reach fully developed status by 2020, as aspired by Vision 2020. The timeliness of the study makes it relevant in these times of increasing focus on improving competitiveness, performance and efficiency for Malaysia to become a maritime nation of global prominence and standing.

Various stakeholders of the Malaysian maritime sector stand to benefit from the findings and recommendations in this study. They include shipowners and operators, port operating companies, and companies involved in the offshore oil and gas sector. The study should also be beneficial to companies involved in building infrastructures, manufacturing equipment and providing services in support of these activities. Government agencies such as the Ministry of Transport, Ministry of International Trade and Industries, Ministry of Human Resources and the Malaysian Logistics Council should also find the policy recommendations helpful. Last but not least, industry associations such as Malaysian Shipowners’ Association, Shipping Association Malaysia, Association of Marine Industries Malaysia, and Federation of Malaysian Manufacturers will also stand to gain valuable pointers from the study in encouraging their members to pursue high-income, value-adding activities.
1.4. Limitations of the study

The study focuses only on activities in the maritime sector as defined in the endnotes. It does not cover the entire spectrum of maritime economic activities which encompass so much more than merchant shipping, port operations and offshore oil and gas exploration and production. Activities such as shipbuilding, fishery, renewable energy, to name a few, are not covered in this research.

Although numerous field trips were conducted in the course of obtaining information and insights from various stakeholders, they are by no means exhaustive. Their feedback are used in guiding the authors to identify activities in the maritime sector which meet the criteria of those promoted by NEM, and also in making policy recommendations to promote those activities. The views of those interviewed were taken as representative of the views of the respective industries they represent or activities in which they are involved.

1.5. Methodology

The research methodologies employed in this study include the following:

- collect data from primary and secondary sources
- interview parties along the maritime supply chain, shipping industry players and government agencies
- assess the competitiveness level of the maritime sector by undertaking a SWOT (strengths, weaknesses, opportunities, threats) analysis
- participate in NKEA Labs or discussion sessions
- conduct Stakeholders Discussion on ‘The Maritime Sector as a National Key Economic Area’ scheduled on 14 December 2010 at MIMA Seminar Room

1.6 Literature review

Various literature on maritime industry development highlights the example of several Western nations which remain very influential in the industry despite having conceded many maritime-related activities such as port operations, shipping and shipbuilding to Asian countries (Branch, 1998; Stopford, 2009). For example, the United Kingdom holds much clout as a centre for maritime insurance and law, despite not having any port of world standing. Germany and Norway are renowned as key ship financing centres, while Singapore hosts many companies which provide a myriad of specialised maritime activities such as consultancy, ship design, classification and arbitration, among many others (Khalid, 2008).

In their seminal book ‘Blue Ocean Strategy’, Kim and Mauborgne (2005) argued that companies aspiring to excel in their industries should adopt a systematic approach to make their competition irrelevant and contest in ‘blue waters’ or unchartered territories. Applying this concept to the maritime sector, companies providing niche services not offered by others, or by
too many competitors, and offering differentiation and low cost to create new market space, stand a better chance of staying relevant and domineering longer than those which don’t. By focusing on the three propositions recommended by the authors - namely value, profit and people – in adopting the Blue Ocean Strategy, maritime support services providers in Malaysia would stand a great chance in creating specialised services and positioning themselves as indispensable, hence increasing their appeal and market share.

The example of Singapore, an international maritime centre (IMC), is worth emulating. Singapore’s success as a maritime nation can be partly attributed to the presence of many companies and individuals providing the kind of specialised maritime services outlined earlier (Khalid, 2009). The case of Hong Kong, another major shipping centre, is another case in point. It features a host of companies providing various specialised logistics services that are key to attracting main line operators (MLOs) to its port (Hong Kong Maritime Industry Council, 2007). Shipping lines and shippers will naturally gravitate to countries that provide a comprehensive range of maritime services, especially specialised services that meet their requirements to transport goods, manage their fleets and fulfil supply chain management needs (Stopford, 2009).

2. Malaysia: Escaping the ‘middle income trap’

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 the so-called ‘middle income trap’. The economy, while more diversified today compared to three decades ago, is still reliant upon labour-intensive activities and, inevitably, cheap labour. 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 to move it up the value chain.

The 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. Sceptics might scoff at the grand ambition of the model and warn of the huge challenges ahead to realise 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 “21st century changes that require 21st 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 liberalised and globalised 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. The industry practitioners must play their part in helping the country attain the lofty aspirations spelled out in the NEM.
The pace of globalisation and liberalisation is quickening, and with it, increasing flow of capital and goods across the globe. This has given rise to increasing competition among nations to attract manpower and investments. For a developing country like Malaysia, foreign direct investment (FDI) plays a crucial role in its economic growth. However, as globalisation picks up pace, and emerging economies like the so-called BRIC (Brazil, Russia, India, China) countries underline their intent to attract foreign investments, Malaysia has lost grounds in pulling in FDI. It finds itself even a pace or two behind regional neighbours such as Thailand and Vietnam, who have made great strides in attracting FDI in the last decade.\(^8\)

As a measure of how far Malaysia has slipped in the ranking of attractive FDI destinations, FDI in the country slumped 81% in 2009 to RM4.43 billion. This steep fall is alarming for a country which used to be the darling of foreign investors with its low cost of doing business. Although certain quarters argued that the decline in FDI is a mark of changing economic composition, from one which was manufacturing driven to a more service-oriented one, the reasoning offered more of a scant consolation. The fact remains that Malaysia has lost out to other nations in wooing foreign investors, and it needs to do something drastic to alter its economic course. Malaysia simply cannot afford to sit back and do nothing amid the stiff competition from other countries to attract FDI.

Compounding this, private investment in the country has also dropped.\(^10\) This comes at a time when the Government has announced that the nation’s economic growth should be driven by the private sector and that the Government should be less involved in business. Decline in private investment represents among others loss of investor confidence, which a country like Malaysia, which harbours lofty ambition to become a developed nation a decade from now, can ill-afford.

### Table 1: Global ranking of countries in the various aspects of doing business

<table>
<thead>
<tr>
<th>Country</th>
<th>Ease of doing business</th>
<th>Starting a business</th>
<th>Dealing with construction permits</th>
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*Source: World Bank’s Doing Business 2010 report*

Although Malaysia ranked 23rd out of 183 countries overall, doing business in Malaysia is still more difficult than in competing countries, especially in aspects related to entry and exit of firms (Table 1).\(^11\) This is another worrying indication of a nation increasingly at risk of losing its competitiveness streak. In today’s borderless, globalised world, businesses have little patience...
with cumbersome requirements that impede the smooth establishment and running of business. They will not hesitate to take their business elsewhere where setting up business and conducting business transactions can be done without much fuss. If no concrete measures are taken to arrest the low ranking of Malaysia as a business destination, the country could run the risk of losing its shining lustre among the global business community.

Compounding the worry, even in areas which Malaysia did well, one could still find chinks in the armour. Take exports, for example, an activity in which Malaysia traditionally ranks strongly. Underscoring its commanding performance in exports, Malaysia was ranked the world’s 24th largest exporting country in 2009. Malaysia’s total exports revenue soared in 2008 to RM663 billion compared to RM553 billion in 2009 due to the global economic contraction (Figure 1). However, while its exports remained strong, they mainly comprised low value-adding products. Many factories across the country employ unskilled and semi-skilled foreign workers performing labour intensive work and earning low salaries. Despite talks of labour reforms and debate to introduce minimum wages, nothing concrete can be seen in the horizon to suggest that there will be a change in the status quo anytime soon.

Malaysia can be proud of its economic transformation from a commodities-driven economy to an export-oriented and manufacturing-drive now, thanks to the foresight of its economic planners and leaders. The economic development strategy of building and enlarging its manufacturing base served it remarkably well in the 1980s and 1990s. Many jobs were created, huge amounts of investments were brought in, and people enjoyed a higher standard of living, moving up from the low income category to middle income. Although Malaysia was shaken by recession in 1986-87 and the Asian financial crisis in 1997-98, it was not too badly stirred and managed to come out stronger from the turbulence.

![Figure 1: Malaysia’s external trade](source: Malaysia External Trade Development Corporation (MATRADE))

**Note:** p = provisional data
But when the Malaysian economy took a hit during global recession in 2008, worrying cracks began to show. They provided warning signs that if serious and urgent mitigating measures are not taken to adjust to a fast-changing world, Malaysia would risk losing its competitiveness. When FDI stopped flowing, as a result of the credit crunch that started from Wall Street in the US, Malaysia’s economy got hit badly. In 2007, it recorded 6.2% gross domestic product (GDP) growth, which declined further in 2008 to 4.6% and in 2009 to -1.7%. These indicate among others the high reliance on FDI. All these provide warning and worrying signs that Malaysia must act fast and resolutely to move up the value chain further and escape the dreaded ‘middle income trap’.

3. Overview of Vision 2020 and its components

Vision 2020, the brainchild of former Prime Minister, Tun Dr. Mahathir Mohamed, has set a target for Malaysia to become a fully developed nation by 2020. This goal will be achieved on four pillars (Figure 2), namely:

- 1Malaysia concept
- Government Transformation Programme
- Economic Transformation Programme
- 10th Malaysia Plan 2011-2015

![Figure 2: Vision 2020 and its components](Source: PEMANDU (modified by authors))
These four pillars will provide the foundation on which to build Malaysia’s economy into a fully developed one by 2020. It is a formidable task, given that the deadline is only a decade away, and much needs to be done to make structural changes in the nation’s economy. However, the target has been set and the onus is on the public sector to set the pace and chart new directions and strategies for growth.

The following section discusses the four pillars of Vision 2020, namely:

i. **1Malaysia**

1Malaysia is an on-going political programme designed by the present Prime Minister of Malaysia, Datuk Seri Najib Tun Razak on September 16, 2008. The “1 Malaysia, People First, Performance Now” concept is formulated to forge unity among the people regardless of racial, religious or cultural backgrounds. It is geared to support the Vision 2020 as the aspiration of being a stable and developed country can only be achieved through ethnic harmony, national unity and efficient governance.

ii. **Government Transformation Programme**

The Government Transformation Programme (GTP) is a roadmap that helps Malaysia chart its path towards Vision 2020. It is formulated based on the principles of 1Malaysia, People First, Performance Now to transform the Government to be more effective in delivering services and accounting outcomes that matter most to the nation; and to move Malaysia forward to become an advanced, united, and just society with high standards of living for all.

The roadmap identified six National Key Result Areas (NKRAs) to spearhead the Government’s transformation:

i) Reducing crime
ii) Fighting corruption
iii) Improving student outcomes
iv) Raising living standards of low-income households
v) Improving rural basic infrastructure
vi) Improving urban public transport

Areas that are not covered by the NKRAs will receive attention from the Government at the ministerial level. These Ministerial Key Result Areas (MKRAs) and Ministerial Key Performance Index (MKPIs) include visible targeted outcomes such as responding faster to public complaints and reducing the number of road traffic accidents). The Minister of National Unity and Performance together with the PEMANDU oversee the implementation and assess the progress of the GTP.
iii. Economic Transformation Programme

NEM will be achieved through Economic Transformation Programme (ETP) which makes up one of the four components of Vision 2010 to transform Malaysia into a fully developed nation by 2020.

PEMANDU was set up in 2009 to spearhead the ETP with National Economic Advisory Council (NEAC) and Economic Planning Unit (EPU). PEMANDU has been mandated to catalyse bold changes in public sector delivery, support the ministries in the delivery planning process, and provide independent view of performance and progress to the Prime Ministers and Cabinet Ministers.

The ETP will be led by the private sector; the Government will primarily play the role of a facilitator. Most of the funding will come from the private sector with public sector investment being used as a catalyst to spark private sector participation.\textsuperscript{15}

At the core of ETP are eight Strategic Reform Initiatives (SRIs) which provide incentives to boost private investments and increase productivity to meet target of average GDP growth of 6.5% from now until 2020.\textsuperscript{16} The SRIs are shown in Figure 3:

![Figure 3: Eight Strategic Reform Initiatives (SRIs)](Source: NEAC)
Below is a description of each of the SRI:

**SRI 1: Re-energising the private sector**

The NEM targets the private sector as the main growth engine, and to spur investment from this sector, it must become more dynamic and assume a greater role in the nation’s transformation. Policies building on Malaysia’s strong manufacturing capability and wide agricultural base will catalyse growth in private investments in high value added products and services, generating growth and high income. To attain this, barriers impeding business and costs in doing business will be reduced. Incentives will be provided only to firms which are capable of moving up the value chain in activities with multiplier effects to other economic sectors.

**SRI 2: Developing a quality workforce and reducing dependency on foreign labour**

A quality education system which nurtures skilled and innovative workers will be strengthened to give them the high level of proficiency required to compete in global markets. Labour market distortions constraining wage growth will be removed to retain local talent while re-skilling of the existing labour force will produce the dynamic talent that Malaysia needs to drive productivity growth. Furthermore, restrictive practices which discourage recruitment of foreign labour will be applied to reduce the number of foreign talent inflows.

**SRI 3: Creating a competitive domestic economy**

Policies will focus on improving economic efficiency through competition and adopting international best practices and standards for local industries to become highly competitive. Subsidies, price controls and a myriad of distortion-creating incentives will be phased out to create an environment for efficient allocation of resources and restore a better balance to fiscal deficits. At the same time, the private sector will become less reliant on subsidies and support from the public sector, allowing for higher levels of private investment and innovation.

**SRI 4: Strengthening the public sector**

With the launch of the GTP, the government has started to become leaner, delivery-focused and more consultative. Cumbersome regulations, processes and procedures will be simplified to improve their effectiveness and reduce rent-seeking. Governance structures will be revamped to make public institutions more effective in driving productivity growth and efficiency improvements. Immediate attention will be given to strengthening oversight on policy development and implementation, in particular for the services sector due to its increasing importance for generating growth.

**SRI 5: Transparent and market-friendly affirmative action**

The affirmative action policy, that will be part of the inclusive growth under the NEM, will be market-friendly or market-based to ensure that it does not violate the workings of the market or contribute distortions in the economy and treat equally those who are in the low income group.
**SRI 6: Building the knowledge base and infrastructure**

Under the NEM, Malaysia’s economy will grow by developing new technology, innovating products and processes, and designing new management methods. Infrastructure critical to high value added activities, such as high-speed broadband, will be put in place to facilitate the new production processes that connect supply chains. Firms will be incentivised to embrace technology and move up the value chain, while higher learning institutions will be allowed to compete for the best students, R&D funding and other academic resources to enhance the knowledge base.

**SRI 7: Enhancing the sources of growth**

In developing further sectors and industries which can lead to growth, Malaysia will leverage its natural endowment, sectors with comparative advantage, and industries where Malaysia has developed early mover advantages as the main sources of high value added growth. Promising expansions into new markets such as eco-tourism and alternative energy generation will be leveraged on, while partnerships with external parties will be exploited to build synergies and widen trading opportunities as well as reduce cost of doing business.

**SRI 8: Ensuring sustainability of growth**

The NEM places strong emphasis on preserving natural resources and safeguarding the interest of future generations. To attain this, all sectors will be encouraged to embrace ‘green technology’ in production and processes and put in place greater efforts to mitigate pollution and reduce Malaysia’s carbon print in line with the government commitment in Copenhagen.

**iv. The 10th Malaysia Plan**

The 10th Malaysia Plan (10MP) 2011-2015 was announced by Prime Minister Dato’ Seri Najib Tun Razak in June 2010 and aims to propel Malaysia towards becoming a fully developed nation by 2020.

10MP states that Malaysia must record 6% GDP annually during 10MP period to escape the ‘middle income trap’. To do so, it has spelled out a strategy to elevate the Malaysian economy into a high-income one driven by productivity instead of capital investment. A development expenditure allocation of RM230 billion will be made to achieve the goals of the 10MP to create a private sector-led economy and support innovation-led growth.

The 10MP is based on ten ideas:

i) Internally driven, externally aware
ii) Leveraging on our diversity internationally
iii) Transforming to a high-income nation through specialisation
iv) Unleashing productivity-led growth and innovation
v) Nurturing, attracting and retaining top talent
vi) Ensuring equality of opportunities and safeguarding the vulnerable
vii) Concentrated growth, inclusive development
viii) Supporting effective and smart partnerships
ix) Valuing our environmental endowments
x) Government as a competitive corporation

To achieve the aspirations of the 10MP, five strategic thrusts have been identified:

i) Designing government philosophy and approach to transform Malaysia using the methodology of the NKRA and KPI
ii) Creating a conducive environment for unleashing economic growth
iii) Moving towards inclusive socio-economic development
iv) Developing and relating a first-world talent base
v) Building an environment that enhances quality of life

The 10MP also draws on the foundations laid down by the 1Malaysia concept, and builds upon the GTP and NEM to offer fresh policies and strategies. Many of the NEM’s new strategies on economic growth and the corresponding SRIs are included in the 10MP. For the next five years, the 10MP will be the means to jumpstart the nation’s move towards a high-income economy.

4. New Economic Model

The foundation of 10MP is the NEM which seeks to transform the Malaysian economy into one with high income featuring value-adding and innovation drive economic activities. It is a bold strategy that is seen as crucial in propelling the nation to attain its target of becoming fully developed a decade from now. Although not without its critics, there is no faulting the NEM for its sheer ambition to transform the nation’s economy and move it further up the value chain towards attaining global competitiveness.

10MP spells out the aspiration of the government to improve infrastructures, human capital development and innovation in various key economic sectors as a means to attain global competitiveness. The Plan is formulated with various new approaches towards enabling Malaysia to become a high-income and high-productivity economy, in line with the goals of NEM.

The need for NEM become apparent as Malaysia faces increasing competition from other nations in a globalised and liberalised world. Figure 4 shows the NEM targets:

i. Generate sustainable economic benefits for all Malaysians
ii. Increase per capita income from the current RM22,000 (US$7,000) to RM49,500 (US$15,000) by 2020.
iii. Ensure sustainable economic development to protect the nation’s environment and natural resources.
iv. Inclusiveness / equal distribution to ensure the benefits of economic growth is enjoyed by every Malaysian.
NEM will focus on skills development programmes, R&D activities and venture capital funding geared towards promoting a higher level of innovation and utilization of knowledge. This is in line with efforts to encourage the private sector to invest in physical infrastructures and provide services such as skills training to relieve the Government of the financial burden of doing so.

Under NEM, economic growth will be attained via the following strategies:

- Placing greater reliance on productivity to drive growth
- Shifting from government-led to private-led investment and production
- Giving greater local autonomy with accountability
- Attaining greater economies of scale from clustering of economic activities
- Attracting technologically-capable firms
- Tapping dynamic markets such as ASEAN, the Arabian Gulf
- Embracing skilled talents

The pervasive and excessive use of low cost foreign labour depresses wages and hampers investment in productivity improvements. There have been reports of discrimination and mistreatment of foreign labour, and Malaysia may be in violation of good international labour practices. With immediate effect foreign labour must be subject to the same labour standards as Malaysian workers in line with International Labour Organisation (ILO) requirements. To reduce dependence over time on foreign labour and improve the labour market conditions for domestic labour, the levy system should be more effectively applied to move industry away from continued dependence on a low cost model.

Under 10MP, 12 NKEAs have been identified to drive and transform Malaysia’s economy. NKEA is defined as “a driver of economic activity that has the potential to directly and materially contribute a quantifiable amount of economic growth to the Malaysian economy”\(^\text{25}\). NKEAs will be the nation’s priority areas for economic growth enhancement between 2010 and 2020. NKEAs cover 11 growth sectors and one geographical area, namely Kuala Lumpur which was chosen as it accounts for a third of the national GDP.
The components of NKEA are:

- Tourism
- Palm oil
- Oil, gas and energy
- Electric and electronics
- Telecommunications
- Financial services
- Wholesale, retail and distribution
- Agriculture
- Business services
- Education
- Health services

To drive NEM forward, discussion sessions called NKEA Labs were held between June-August 2010 to identify and study feasibility of projects and initiatives under each NKEA. The Labs gathered over 500 captains of the industry to deliberate and develop implementation plans to deliver the NKEA targets. MIMA was represented at a PEMANDU Workshop held on 12 May 2010 and attended by 1,000 industry leaders in the private sectors.

The Labs aimed to develop detailed implementation activities, results and delivery plans to achieve the NKEA targets as well as realising the aspirations of NEM. The Labs took into account views and feedback by industry leaders on the NKEA.

The outputs of the Labs were unveiled to the public at the ETP Open Days in September and October 2010 at various locations, i.e. Kuala Lumpur, Sabah and Sarawak. PEMANDU, headed by Dato' Seri Idris Jala, Minister at Prime Minister's Department, announced that a total of 131 Entry-Point Projects (EPPs) worth RM670 billion have been identified across 12 sectors under the ETP with 60 business opportunities available. Of these, the private and public sector will carry out seven EPPs worth RM118 billion by the end of this year. The result of these Open Day consultations is the ETP roadmap for Malaysia to become a high-income nation, which was revealed at the launching of the ETP on 25 October 2010.

5. Responding to 10MP: Moving the maritime sector up the value chain

The aspirations underlined by 10MP should be seen by maritime industry players as an opportunity to increase the sector’s competitive level amid rising competition from neighbouring countries to attract shipping lines at their ports, for their ports to increase throughput to facilitate bigger trade volumes.

The announcement by the government in 10MP to improve multimodal connectivity, or the linkages among different transport modes to facilitate seamless, more efficient movement of cargos, presents a challenge and opportunity for players in the maritime support services sector to introduce more value-adding, innovation-driven and high-income services. In light of frequent calls by shippers to improve last-mile connectivity between the nation’s seaports and land-based transport modes, much needs to be done to increase capacity and
capability to address this concern and facilitate a smoother transfer and distribution of cargos between the sea leg and land transport.

The focus given to the logistics sector in 10MP also presents a great opportunity for the industry players to establish itself as a stand-alone sector instead of merely a component of the services sector. The very mention of the logistics industry in 10MP underscores the government’s acknowledgment of the importance of logistics as a pivotal facilitator of Malaysia’s increasingly trade-dependent economy. As the pace of globalisation and liberalisation increase, pressure is growing for Malaysian logistics services provider to expand the scope of their services to cater to greater and more sophisticated demand for logistics services from shippers, transport service providers and other users. To become truly competitive as a maritime and trading nation, and to realise its ambition to become a regional shipping hub, Malaysia must work at integrating its supply chain to the international and global supply chains, and this can only be attained through a competitive and efficient logistics industry.

All these demand that the maritime support services sector, which includes manufacturing and services activities, to step up to the plate and raise its game to help realise the ambition for Malaysia to become a globally competitive and developed nation by 2020. This will require for the provision of a host of value-adding, high-income and innovation-driven set of activities in the sector, beyond just transporting cargos. The success of world-class maritime hubs such as Singapore and Hong Kong in facilitating huge volumes of maritime trade can be partly attributed to the availability of a wide array of maritime support services coveted by shipping lines and other players in the maritime sector. There is no doubt that for Malaysia to emulate the success of such prominent maritime trade and shipping centres, it has to be able to provide expansive and high-quality maritime support services.

6. **NEM challenge for Malaysia’s maritime sector**

Of the 12 NKEAs identified by the Malaysian Government, maritime sector is not included as one of the key areas. Although one may argue that the Government did not totally neglect the maritime sector as the ETP mentioned about the Government providing funds to develop Tanjung Agas as a centre for the oil and gas (O&G) industry support services, the fact that maritime sector is not included as an NKEA is a big disadvantage to the sector and the industry players would feel neglected if maritime sector is not listed as an NKEA. Given the significance of the maritime sector to the Malaysian economy, maritime industry players should make a case for the sector to be included as an NKEA. The Government should give stronger emphasis to the maritime sector as we were once in the maritime map of the world.

What then can, and should, the players in the maritime industry do to ensure the targets of the NEM are met? For a start, 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, liberalised and globalised 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 can 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 and niche 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 NEAC released together as the announcement of the NEM outlined what should be done to help realise 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 13th largest economy in the world today in a matter of decades since the Korean War provides precious leads to Malaysia in its quest to attain high income status.

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 Programme by taking up the strategic thrusts of the SRIs. They should invest in R&D, technology, IT, infrastructures and human capital development to realise the goals of the programme.
7. **Suggested activities in the maritime support services sector that can be promoted to meet NEM objectives**

Malaysia would do well to emulate the examples of successful maritime centres like Singapore and Hong Kong in terms of providing maritime specialised services in order to create a niche for itself in the increasingly competitive maritime field. As ports in the region upgrade their infrastructures, enhance capacity, improve their services and offer competitive rates, Malaysia cannot continue to rely on its ports alone to win the battle for supremacy among maritime nations. It must start to look into providing specialised services to attract more shipping lines, especially MLOs and shipping investors.

By venturing into these services, Malaysia would also mitigate the risks of being too dependent on labour-intensive, low margin activities such as shipping and port operations and in areas in the maritime industry where competition is intense. This would be in line with the aspirations of the NEM for Malaysia to create more value-added, knowledge-based and technology-driven activities that can generate high incomes. It would also fit well with the goal of becoming globally competitive, as articulated in the IMP3 2006-2020.

Such an effort is not just about enlarging the economic pie, though. Venturing into high-income, value-adding maritime specialised services in a serious way can also spur the development of human capital in the maritime sector and enhance the level of competency of its maritime manpower. To do so, Malaysia must put in place solid institutional framework to nurture skilled maritime human capital by way of providing adequate and quality maritime training and education institutes and to promote R&D and innovation in the field of maritime. This is a crucial enabler to churn out quality local workforce in the maritime sector. Malaysia can then export these talents as a highly skilled and well-trained maritime workforce is keenly sought after worldwide.

To attain the lofty goals of NEM, Malaysia must focus on developing the 'software side' of the industry. It has become obvious that a developing country like Malaysia can no longer rely on investing huge amount of scarce capital alone to generate economic growth. It must focus on developing talents to create high-income, value-adding economic activities as aspired by NEM. The maritime sector can and should play its part to promote high-income, value-adding, innovation-driven activities. Some of these activities are already carried out by several local companies but need to be promoted more systematically and aggressively. Additionally, Malaysia must work at reducing its dependence on merely building expensive infrastructures and purchasing maritime assets to compete with other maritime nations which enjoy advantages such as lower labour cost and economies of scale which the country does not have.
Among the activities that can be promoted that meet the ideals of NEM are:

### i. Maritime financing

Some banks in Malaysia are already providing maritime financing. Although it is one of the key maritime activities in Malaysia, the financial system is nothing compared to what was provided in the United Kingdom. London is renowned as one of the top maritime financing centres in the world even though the country does not have much maritime infrastructures. Taking that as an example, Malaysia can also be seen as one of the leading maritime financing centres in providing such ‘soft’ services by introducing more financing alternatives for purchase of vessels, port development, shipyard expansion and so forth. Malaysia can also leverage on its leadership in Sharia financing in achieving this goal.

### ii. Shipyard services

Although shipyard activities are classified as labour- and capital-intensive, the spin-offs and multiplier effects from this sector are very high. Operational activities in the shipyard services use high technology equipment and machineries. Top shipyards in the world actually just have very few people working at the yards due to advancement in technology. Some of the activities in the ‘soft’ side of shipyard services in shipbuilding and ship repairing are naval architecture and designing, and engineering. These types of services are highly lacking in this country. Such specialised services together with the deliverables from the shipyard would also contribute greatly to the country’s economy as they would generate high-income and value-adding...
activities which are in line with the aspirations of NEM. Therefore, Malaysia should capitalise on the strength of niche yards in building leisure crafts, offshore structures, offshore service vessel (OSV) and floating production storage and offloading (FPSO).

iii. Marine leisure industry services

Malaysia hosts a lot of marinas but not many are capable of servicing super yachts. This is mainly because the servicing part is lacking. Even though the marinas in Malaysia have adequate berths and are comparable to some of the top marinas in the world, the manpower to service the luxury yachts, crews and owners and the entourage are not available. Malaysia can take advantage of the existing marinas to attract more boaters and promote marine leisure industry.

iv. Integrated logistics services

The focus now is on multimodal transport, a combination of more than one transport mode to deliver goods. Due to the fact that shippers and traders are now trading on a global market, the requirements for supply chain management are more complex. They are looking at managing the supply chain by procuring raw materials, manpower, financing, and information from around the world. Unfortunately, logistics providers in this country are still very much focused on delivering cargo and not designing and providing consultancy in supply chain management services. This area is in fact the real money spinner. Most of the top logistics providers are actually looking into third party logistics (3PL) or even fourth party logistics (4PL). These companies do not even need to own any assets (e.g. trucks, ships, rail, and cars) but can still provide tremendous integrated logistics services and reap profit from that. Malaysia can provide integrated logistics services including multimodal transport to cater to just-in-time (JIT) production, demand for door-to-door delivery. Special focus should also be given on niche services i.e. halal logistics, cold chain logistics, energy industry logistics, green logistics, and reverse logistics.

v. Offshore support services

With the technological advancement in deep water exploration gaining pace, a host of support services are required to enable activities offshore, which include manning personnel management and supplies, designing of oil rigs, and also accreditation and classification for health, safety and environment. Malaysia can leverage on our experience in offshore oil and gas (O&G) industry and exploration and production (E&P) activities in Malaysian waters, and on PETRONAS leadership in deepwater activities.

vi. Supply chain management

The supply chain management is part and parcel of the integrated logistics services. Malaysia can provide supply chain management services and solutions for players in the maritime sector.
vii. Port development and management

Some of the local ports, such as Port Klang and Port of Tanjung Pelepas, are among the top 20 container ports in the world. These ports, renowned for providing superb infrastructure and high level of efficiencies in providing their services, can be considered world class. At the same time, these ports are offering relatively low cost compared to other ports which provide similar services. This is one aspect Malaysia has been leveraging on. However, Malaysia cannot continue this path for long. Other developing countries are also developing their infrastructure, and they can emulate this advantage. Malaysia has to start looking into other areas. Malaysia could emulate the likes of Port of Singapore Authority (PSA) and Dubai Ports World (DP World) where they not only design, build and operate terminals around the world, but also invested and provided consultancy services to develop and manage ports in other countries.

viii. Reducing emissions and managing energy use

This is an area where serious attention needs to be given to not only in terms on advisory but also in designing of equipments which may help shipping companies or port operators to reduce emissions and manage energy use. Issues relating to reduction in greenhouse gas emissions and management of energy use in the maritime sector are very much bounded by the International Maritime Organization (IMO) Conventions. Malaysia has recently ratified three IMO Conventions concerning shipping and environment where maritime industry players would have to abide by the requirements and practices. Expertise in managing energy use is scarce and talents in this area would be highly coveted and in demand. Malaysia is in need to develop solutions to green the maritime sector, attain efficient use of fuel and explore alternative or renewable energy sources.

ix. Maritime education and training

Maritime education and training are soft skills which are important not only in terms of providing training for seafarers but also to prepare the manpower to carry out the myriad of activities in the maritime sector. Malaysia has always aspired to be the educational hub in the region and this can be done by positioning Malaysia as a place for seafarers training and education in the maritime sector. Requirement for seafarers and other maritime related career is becoming more complex and therefore education and training standards have got to step up to live up to the expectation for more skilful and talented workforce. Malaysia can beef up infrastructures such as academies, training institutes, and university faculties, or even set up dedicated maritime university.

x. Tax and legal advisory

Tax and legal advisory and also consultancy in the maritime sector are activities which can generate high-income as well as value-adding. Information is a raw material but after processing them, becomes knowledge and can be traded. Therefore making advisory and consultancy in the maritime sector high-value and generate high income to the professionals. These types of services do not require high capital to start up businesses but will provide high revenue as the consultancy fee. With the recent establishment of an Admiralty Court in Malaysia, hearing of maritime disputes can be conducted in the country by qualified judges and legal practitioners.
Malaysia would have its fair share of cases that would raise issues for judicial consideration. Malaysia can capitalise on experience and track record of leading Malaysian-based legal and tax firms in maritime financing.

Based on the discussions covered in the sections above, the strengths, weaknesses, opportunities and threats (SWOT) of the Malaysian maritime industry is summarised in Table 2.

Table 2: SWOT analysis of the competitive level of the maritime sector

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strategic location in the Straits of Malacca</td>
<td>• Maritime sector lacks ownership from the government to help champion its course in development</td>
</tr>
<tr>
<td>• Lucrative maritime sector which all businesses can tap on</td>
<td>• Insufficient physical and non-physical infrastructures to support the direct maritime activities, e.g. port operations, shipping and shipbuilding activities, has benefited foreign companies as local industry players need to import equipment and bring in experts from overseas</td>
</tr>
<tr>
<td>• Available knowledgeable and experience maritime industry players who have strived on their own to sustain the industry with minimal support from the Government</td>
<td>• Lack of support for products and services which are provided by locals and therefore have no economic of scale from domestic market</td>
</tr>
<tr>
<td>• Supply of knowledgeable and capable local maritime legal experts</td>
<td>• Lack of sufficient government fund to promote the maritime sector</td>
</tr>
<tr>
<td>• Availability of superior infrastructures (e.g. telecommunication, utilities, transportation)</td>
<td>• Available incentives and funding are not well structured and lack clear guidelines. Most of the funding for R&amp;D is being tapped by universities which are more academic rather than industry oriented.</td>
</tr>
<tr>
<td>• Abundance of low cost labour and other utilities such as fuel, water and electricity</td>
<td>• Lack of maritime financing in protection and indemnity (P&amp;I) insurance and marine hull &amp; machinery, forces the marine leisure players to use foreign crews</td>
</tr>
<tr>
<td>• Political stability</td>
<td>• Lack of professionals especially in the field of maritime law and naval architecture and designing as local universities provide limited courses relating to maritime sector</td>
</tr>
<tr>
<td>• Good education system which is on par with international standards</td>
<td>• Lack of exposure and experience among local experts due to less opportunities to practice in maritime cases</td>
</tr>
<tr>
<td>• Set up of admiralty court to deal exclusively with shipping and maritime-related matters would encourage the growth of legal services in the country</td>
<td></td>
</tr>
</tbody>
</table>
Opportunities | Threats
--- | ---
Growing demand of the maritime sector | Fast catch up by neighbouring countries on the activities of maritime sector. The Philippines and Vietnam are ranked among the world’s top ten shipbuilding nations but Malaysia having 60 years of experience is still far behind.
Some available maritime activities are highly innovative in nature and contributes to value-adding aspect of the sector | Emerging ports in the region, e.g. new deepwater container terminal in Vietnam and Hambantota Port in Sri Lanka, may cause local ports to lose businesses.
Ratification of IMO Conventions concerning shipping and environment would present opportunities for manufacturers in the maritime sector to create innovative solutions e.g. ballast water management systems | Stiff competition from Singapore which can provide more efficient services as it is an open economy and have large pool of expertise to work in this areas.
Further advancement of the maritime sector would provide huge potential for employment of skilled workforce particularly in the ‘soft’ side of the sector to generate high-income economy | Brain drain of local experts and professionals to Singapore as they have brighter prospects there (i.e. higher pay and more exposure).
Provision of consultancy and advisory services to foreign companies which have interest in doing maritime business in Malaysia, especially in the oil and gas industry | Provision of legal services in obtaining and avoiding Rule B attachments for maritime claims
Provision of legal services in obtaining and avoiding Rule B attachments for maritime claims

Although at first glance of the SWOT analysis shows that there are more weaknesses than strengths in the competitive level of the maritime sector in Malaysia, a lot of opportunities also exist for the industry to take advantage on.

8. Conclusion

As Malaysia’s economy 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 summarised in Table 1, is a damning indictment of its decline in its level of competitiveness. 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 must no longer business as usual, not on land nor at sea. Malaysians, including practitioners in the maritime industry and related support services, 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.
Malaysia can no longer continue to travel the common path that it has been practising and hope to keep clinging on to the comparative advantage of being low-cost country that it has always enjoyed. This kind of comparative advantage can easily be replicated by other countries like Vietnam and Thailand, which are fast catching up with Malaysia and might even overtake us in certain aspects.

The result of globalisation, liberalisation and the removal of other trade barriers would lead to businesses being no longer protected in trade market. Malaysia is committed to several liberalisation initiatives at Association of Southeast Asian Nations (ASEAN) level and as a member of World Trade Organisation (WTO), and is therefore beholden to start liberalising certain sectors. The floodgates are going to be open sooner or later where there will be there free movement of goods and foreign players can come into play.

The ten identified maritime support services meet the NEM goals of generating high-income, value-adding, innovative-driven, and knowledge base economy. Most of the services tend to the ‘soft’ side of activities, by providing advisory, consultancy and technological solutions. Although shipyard services may feature physical, labour intensive field of work, its activities involves high-technology and skilled manpower such as naval architects, designers, engineers and skilled technicians. In line with that, maritime support services should definitely be made as one of the NKEAs.

Malaysia has the potential to move up the value chain in maritime sector but much more needs to be done to fulfil this potential. Ranked as the 22nd largest maritime nation in the world by UNCTAD in 2008, and contributing 1.3% to world maritime trade volume and merchant shipping tonnage, Malaysia is a prominent figure in the maritime arena. However, there are still many areas in the maritime sector that are untapped and therefore, have ample room for growth. A strategy in propelling the maritime sector up its value chain needs to be formulated.

It is time that maritime industry players wake up to the fact that taking a myopic worldview of their business environment and continue with the status quo in their respective sectors is not a sustainable proposition. Realising 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’ or performance first 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.

9. Policy options for Malaysia’s maritime sector to meet NEM goals

To make the quantum leap as a nation better known for its prowess of the ‘physical’ side of the industry such as seaport operations and shipping services, Malaysia needs to put in place the pillars on which a strong platform can be built to enable it to excel in services-oriented types of activities in the sector.
Below are several policy options that can be considered in promoting maritime support services activities which are high-income, high-value in nature:

i. **Develop a strategy / plan of action to align the maritime sector to NEM’s aspirations**
   A strategy, or long term plan, is needed to help the maritime sector align with the aspirations of NEM. Malaysia cannot continue to do things at a piecemeal basis. Malaysia needs to be flexible, pragmatic and practical. All these can be done in a certain framework so that Malaysia does not lose sight of our goals. As a developing country, allocation of resources must be done properly and effectively as we do not have the financial cloud the developed countries have. Perhaps a specialised ministry for maritime affairs or shipping should be accorded to develop the maritime sector.

ii. **Offer a set of incentives to encourage companies to offer such services**
    Some sort of funding from the Government is still needed to help local businesses. In the likes of Singapore and Hong Kong, their Governments are still providing a lot of incentives to spur businesses and lure foreign companies to invest into their countries, as well as the engage the locals to be involved in certain types of industries. Special incentives or grant for development of the maritime sector is required. Funding for R&D needs specific guidelines and a more structured approach.

iii. **Invest in skills and talent**
    In Malaysia, it is most unfortunate that businesses see this as a cost rather than investment that would yield good dividend in the future. Malaysia needs to invest in local skills and talents and stop relying on foreign experts, in order to achieve our goals by 2020. The building of experts, professionals, and specialists does not happen overnight and hence, nurturing of local talents should start as early as possible. The maritime sector should take advantage of the recent set up of the Talent Corporation Sdn Bhd by the Government to build the pool of talents for the sectors.

iv. **Inculcate and promote a strong R&D culture**
    Malaysia’s expenditure and allocation for R&D vis-à-vis GDP is paltry as compared to Korea and Japan, to name a few. This is something that needs to be addressed urgently. Although the Government may have done many things to promote R&D, such as providing of incentives and financing for R&D, Malaysia is still not making the transformation needed.

v. **Consolidate certain sectors to attain economies of scale and better regulation**
    In the case of shipping, for example, there are too many players servicing the small domestic market. There are close to 300 shipping companies in the country where some owns only a couple of small vessels. There are no economies of scale and critical mass that would enable these shipping companies to compete and allocate their resources and service their clients overseas. Therefore, consolidation would be the solution to attain economies of scale and better regulation.

vi. **Encourage local companies / users of services, especially Government Linked Companies (GLC) to use the services of local companies**
    Charity should begin at home. Some big GLC can start helping some of the local companies to get a head start in order to attain the high-income, value-adding services. For example, Petronas has got local vendor development programme (VDP) to supply
products and services, and help promote the services provided by some of the shipping companies. However, most believe that Petronas can do much more to help the other local companies. This not only applies to Petronas but also other big GLCs, such as Malaysia Marine and Heavy Engineering (MMHE), MISC Berhad, Sime Darby, Tenaga Nasional Berhad and Malaysian Airlines, to name a few. The VDP for the maritime sector should have KPI requirements properly set so that big local companies would need to meet a certain quotas of engagement of local support services companies.

vii. **Boost the use and application of technology and information and communication technologies (ICT)**

The application of ICT and technological solutions play an important role in communication, planning and operation especially in the integrated logistics and supply chain management activities. Although Malaysia has implemented the Electronic Database Interchange (EDI) since 1993 to facilitate the Malaysian trade community to submit import and export manifest and goods declaration documents electronically to Customs administration, the interoperability of ICT and technology solution within the country are not fully met and progressing at a snail pace. Provision of such services would bring in lucrative income and definitely meet the NEM goals of high-income, innovative driven and knowledge base economy. There is plenty of room for Malaysia to grow in terms of usage and application of ICT and technological solution as well as provision of infrastructure namely high speed broadband connectivity throughout the country. Malaysia should definitely encourage the use and application of this area.

viii. **Create an entrepreneurial, open and competitive business environment**

In this era of intense competitive environment, which is compounded by disappearing of national boundaries and a near regulation-free business environment, it is crucial for the country to formulate strategy to escalate business and economic activities. Based on the country’s history, entrepreneurial spirit, accumulated know-how, and social network, Malaysia can understand, discover, document and exploit insights into ways of creating more sustainable open and competitive business environment. Since maritime sector is a global business, both public and private sectors need to have more international cooperation.

10. Areas for future research

Further studies that could be undertaken on this subject include a study to assess how the maritime sector could tap into the EPPs. Furthermore, a detailed analysis on specific sectors that satisfy the criteria of NEM could be carried out to enhance our understanding on the dynamics and contribution of each sector. This could facilitate the stakeholders to make strategic decisions related to aligning the maritime sector to meet the targets of NEM.
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Endnotes


2 For purpose of discussion in this paper, the term ‘maritime sector’ is defined as the sector featuring various economic activities directly or indirectly related to the oceans. Direct activities include shipping, port operations, offshore exploration and production, shipbuilding and repairing, and leisure boating; while indirect activities include legal advisory, maritime education and training, and a host of other support services to facilitate maritime economic activities.

3 Kim and Mauborgne (2005) argued that tomorrow’s leading companies will succeed not by battling competitors, but by creating ‘blue oceans’ of uncontested market space or unchartered territories ripe for growth. Such strategic moves create powerful leaps in value for the firm and its buyers, making competitors irrelevant and unleashing new demand.

From independence to the 1980s, Malaysia’s economy progressed rapidly from being an agricultural society in the 1950s into a manufacturing-driven Asian Tiger Economy by the 1980s. This was achieved mainly through labour-intensive industrialisation. However, subsequent attempts to further deepen its industrialisation process met with mixed results; and Malaysia’s economic well-being generally remained stagnant. Malaysia has been classified as a middle-income country because it has a per capita income of less than US$10,000 but more than US$1,000. Malaysia is thought to be in a middle-income trap because it is not technology-intensive to compete with the developed or high-income countries and at the same time not cheap enough to compete with China.


UNCTAD’s *World Investment Report 2010* unveiled that Malaysia’s 2009 FDI is less than half of the annual average FDI inflow between 1995 and 2005, which encompasses the long recovery period following the 1997 economic crisis. Malaysia’s performance also pales in comparison with neighbouring economies like Thailand and Indonesia whose FDI figures did not contract as severely, despite the global financial crisis.

According to the World Bank’s *Doing Business 2010* report, Malaysia’s ranking in ease of doing business is behind developed countries globally and regional economies such as Singapore and Thailand which rank 1st and 12th, respectively. This has the unintended effect of favouring existing businesses and hampering competition. Malaysia’s place within the Global Competitiveness Index has dropped to 24th in the 2010 report from 21st previously, indicating that the country is becoming less attractive as an investment destination. See World Bank. (2010). *Doing Business Report*. Retrieved 24 October, 2010 from http://www.doingbusiness.org/Rankings


Distortions and other barriers in the economy have resulted in an elevated cost for doing business in Malaysia, and this is reflected in the very low levels of private investment. Possible measures under the NEM to remove distortions in regulation and licensing, including replacement of the Approved Permit system and introduction of a ‘Single Window’ licensing process through e-Government portals, would boost private investment.

In keeping with the NEM aspiration, fiscal and other incentives for low value-adding industry and services will be phased out and eventually eliminated to create a dynamic ecosystem for entrepreneurship and innovation.

The main purpose of this SRI is to reduce income disparities, continue with market-friendly affirmative action programmes as a means to promote building of capacity and capability, narrow regional differences especially in Sabah and Sarawak, encourage reward on the basis of performance, and promote equitable and fair access to opportunities.


The 10MP development expenditure allocation of RM230 billion is split as follows: 55% for economic sector (RM126.5 bil.), 30% for social sector (RM69 bil.), 10% for security sector (RM23 bil.), 5% for general administration (RM11.5 bil.). The Ninth Plan had a development expenditure allocation of RM200 billion. The 10MP allocation for non-physical infrastructure will be increased to 40% of total government expenditure compared with 21.8% under the Ninth Plan. See Chong, Y. (2010, July 1). The 10th Malaysia Plan. Malaysian Business. pp. 23-27.


26 NKEA Labs was the follow up to the workshop held in May where consensus on key growth sectors was achieved. The Labs involved over 500 participants from over 200 private sector companies, non-governmental organisations (NGOs), government ministries, agencies and regulatory bodies. The collaboration among the public and private sectors has led to identification of specific projects and business opportunities underpinned by the 12 NKEAs.

27 The ETP Open Days was organised by PEMANDU to raise public awareness and showcase NKEA Lab outputs and what was in store for each NKEA. The ETP Open Day in Kuala Lumpur was held on 21 September at the Putra World Trade Centre, followed by the same event in Kuching, Sarawak on 4 October and Kota Kinabula, Sabah on 7 October.


29 The ETP roadmap revealed the government’s intention for the oil, gas and energy sector, one of the 12 NKEAs to drive the nation’s economy. According to the roadmap, 12 EPPs have been identified for the sector with the focus on four thrusts: sustaining oil and gas production; enhancing downstream growth; making Malaysia the No 1 Asian hub for oilfield services; and building a sustainable energy platform for growth. The sector is expected to record a 5% annual growth or RM131.4 billion from 2010 to 2020. In 2009, the oil, gas and energy sector accounted for 19% of GDP and generated RM56billion in export revenue. See Yong, W.W. (2010, November 15). *Economic Transformation Programme: A Roadmap for Malaysia*. *The Edge*. p.79

30 Malaysia’s expenditure on R&D as a proportion of GDP in 2007 was only 0.64% compared to 3.22% in South Korea. See Trading Economics Indicators. *Research and development expenditure (% of GDP) in South Korea and Malaysia*. Retrieved on 19 November, 2010, from http://www.tradingeconomics.com/


32 Recent news have reported that Petronas will introduce specific incentives for the oil and gas sector to enhance oil recovery investment, boost exploration activities in marginal fields, and set the stage for Malaysia to emerge as a regional hub for oilfield services. Petronas will take the lead in the
development of the Malaysian oil, gas and energy industry, which has been identified as one of the 12 NKEAs. See Anon. (2010, November 16). *Petronas to announce specific incentives for O&G sector, says Idris Jala*. Bernama. Retrieved on 22 November, 2010, from http://www.bernama.com/bernama/v5/newsbusiness.php?id=543468


34 The types of legal services provided specifically to the maritime sector in Malaysia includes litigation and arbitration, legal advisory and services on ship financing, maritime insurance claims, and commercial maritime transactions (e.g. drafting of hire – purchase, and charter agreements).

35 During a stakeholders' meeting on ‘The Maritime Sector as a National Key Economic Area’ organised by MIMA on 14 December 2010, the participants lamented that the Ministry of Transport Malaysia gave priorities to the aviation and land transport and have overlooked the development maritime transport. They suggested that perhaps the maritime sector should be accorded a ministry of its own, as the Ministry of Shipping or the Ministry of Maritime Affairs, as an example.

36 The Federal Rules of Civil Procedure, Rule B of the Supplemental Rules for Admiralty or Maritime Claims (“Rule B”) provides that a plaintiff with a maritime claim can make an ex-parte application in federal court to attach the defendant’s property located in the jurisdiction. The purpose of a Rule B attachment is (i) to obtain security for the claim and (ii) to obtain jurisdiction over a defendant who is not otherwise present in the district.


39 Most OSVs servicing the O&G sector are foreign flagged (mostly Singapore).


Taking the automotive industry for example, there was a conscious policy by the Malaysian Government to manufacture cars of our own and had the Vendor Development Programme to develop the automotive support services concurrently. Due to strong government support, the automotive industry is successful today.

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Anon. (2010, June 14). 10th Malaysia Plan Highlights. The Edge Malaysia. p.S3


