



Smooth operators: improving the efficiency of maritime ancillary services

In the maritime industry, developments such as the consolidation of shipping companies, security imperatives, the growing size of vessels, focus on door-to-door transport, supply chain management and a host of other changes have given rise to new challenges to maritime support service providers. Other external factors such as globalisation and market liberalisation further exert pressures on these companies to remain competitive to survive and thrive in their respective businesses.

Amid this dynamic background, the role and importance of maritime ancillary services that provide the backbone for seaborne trade which is crucial to the economies of developing countries has grown. Such services include logistics, banking, insurance, law, ship classification and IT, which provide crucial support to the operations of the ports and shipping that facilitate much of world trade.

Without these supporting activities, the maritime sectors of trade-dependent developing nations would not be able to handle their increasing trade volumes efficiently. Projected on a wider scale, this could lead to economic growth being hampered by inefficient trade supply chains, eroding competitiveness and attractiveness as investment destinations. Amid increasing competition among developing nations to attract foreign direct investment (FDI) and among ports to lure shipping lines and their cargo, countries that cannot provide the spectrum of services needed to facilitate trade in a smooth and effective manner will be shunned by investors, and their ports



Nazery Khalid, senior fellow at the Maritime Institute of Malaysia, outlines the issues hampering the maritime ancillary services sector in trade-dependent

developing countries and proposes ways to enhance their efficiency to support booming maritime trade and thereby boost overall trade competitiveness

will be bypassed by international shipping lines.

Several issues are found to be prevalent in the maritime ancillary services sector of developing countries, including :

- *Barriers to accessing foreign markets.* Various types of technical barriers exist in several countries, and these barriers pose obstacles to foreign companies to freely entering into and operating in the markets of those countries. For example, several countries require licensing of

foreign companies planning to operate in maritime ancillary activities, such as freight forwarding, shipping services, etc. There are also protectionist policies intended to safeguard the interests of local companies, for example in shipping. Many countries — developed and developing alike — impose cabotage restrictions on foreign shipping lines in the domestic shipping market, except in cases where no local vessels are available. This is done in the interests of protecting the local players and to promote their



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involvement in the maritime services sector.

In order to circumvent obstacles such as restrictions to obtain licenses, foreign companies resort to forming partnerships with local companies or appoint intermediaries to conduct their business. This takes time and does not lead to a very efficient process, and it also limits the scope of activities foreign companies can undertake. Such 'legal discrimination' is seen as imposing a barrier to the promotion of seamless trade and prevents the smooth movement of goods across boundaries.

- *Preferential pricing of certain types of ancillary services.* For example, multimodal transport operators in certain countries impose high charges on users who are not shareholders of the companies. This imposition reduces equal market access and creates a less than favourable impression of those countries among foreign companies. Despite the good intention of those policies to protect the interests of local players, the imposition of preferential pricing practices can be seen as being unfriendly to foreign companies.
- *Underdeveloped ancillary services catering for multimodal transport and a lack of integration in the services provided by supporting players.* Small road transport operating companies in developing countries, for example, almost always find it difficult to get a partner willing to haul goods for the final legs of journeys into neighboring countries, crossing land borders. Therein lies the need for a framework conducive to the 'matching' of services for carriers of goods to promote multimodal transport in the country to enhance its trade competitiveness.
- *Quantitative restrictions on the import and export of products.* For example, some countries still impose import quota on certain controlled goods and materials to protect the interests of local manufacturers and producers. Under WTO rules, exceptions to quantitative restrictions are allowed in limited conditions such as critical shortages of goods and problems in balance of payments. However, such restrictions distort trade as they ignore market forces and affect the competitiveness of the prices of goods and materials.

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These restrictions to smooth the flow of trade are among the issues affecting the maritime support services sector. It is imperative for maritime trade, one of the most international of human endeavours, to minimise — if not altogether dismantle — barriers that frustrate the smooth facilitation of international trade to ensure that trade among nations can continue to flourish. Without an international trade system that can support huge volumes of trade, developing countries reliant on trade to fuel their economic growth in particular and world economy in general will find it difficult to prosper.

Table 1: companies offering ancillary services in Malaysia

| Service | No. of local companies involved |
|-------------------------|---------------------------------|
| Cargo handling | 165 |
| Freight broker | 13 |
| Cargo clearance | 52 |
| Logistics management | 50 |
| Shipping agencies | 733 |
| Stevedoring contractors | 24 |
| Storage | 28 |
| Freight forwarding | 1,084 |
| Customs clearance | 71 |
| Warehouses | 222 |

Source : www.eguideglobal.com.my (retrieved on 12/5/2008)

The importance of maritime ancillary services to trade-dependent countries : the experience of Malaysia

The maritime industry is a dynamic, competitive industry in constant flux, in line with the ever-changing developments and patterns in global trade that the industry helps to transport. It has grown in stature and importance befitting the tremendous role it plays in facilitating much of the world's trade. Trade-dependent countries such as Malaysia have come to realise the importance of beefing up their maritime capacity and capability as their maritime competitiveness is increasingly used as a yardstick to measure their overall competitiveness.

In facing ever-intensifying competition from other trading and aspiring maritime nations, a country like Malaysia must make serious and sustained efforts to enhance the competitiveness and responsiveness of its maritime sector to meet the needs of its users, benefactors and stakeholders. Crucial to this effort is the establishment of an efficient, comprehensive national strategy to develop the maritime support services sector.

Although Malaysia has recorded impressive growth in its maritime sector through the concerted efforts by its government and the private sector, stiff challenges loom on the horizon, arising from developments in the maritime industry and in international trade, and from increasing competition from regional nations. For Malaysia, which relies on trade growth to power GDP growth, the importance of its maritime sector as a facilitator of its trade growth and economic prosperity cannot be overemphasised.

It is not an exaggeration to state that in Malaysia, which relies heavily on maritime transport to facilitate much of its

trade, the maritime transportation sector is crucial to the growth of its economy. The country therefore depends heavily on the maritime ancillary services sector to gain competitive advantage towards meeting increasing demand for shipping services (see Table 1).

The availability of a broad spectrum of



such services is also crucial for the country to attract shipping lines to its ports and to lure the foreign direct investment crucial to sustained economic growth.

It is therefore paramount for Malaysia to develop a dynamic and efficient maritime support services sector to propel the growth of its maritime industry, trade and economy, if it is to remain competitive as a trading nation.

Table 2: Malaysia's trade volume 1997-2007 (RM bn)

| Year | Export | Import |
|------|--------|--------|
| 1997 | 220.9 | 220.9 |
| 1998 | 286.6 | 228.1 |
| 1999 | 321.6 | 248.5 |
| 2000 | 373.3 | 311.5 |
| 2001 | 334.3 | 280.2 |
| 2002 | 357.4 | 303.1 |
| 2003 | 397.9 | 316.5 |
| 2004 | 480.7 | 400.1 |
| 2005 | 533.8 | 434.0 |
| 2006 | 588.9 | 480.5 |
| 2007 | 605.1 | 504.6 |

Source: Malaysian External Trade Development Corporation (MATRADE)

Table 3: container throughput at Malaysian ports (selected years)

| Year | Throughput (mil. TEUs) |
|------|------------------------|
| 1996 | 2.56 |
| 1998 | 3.06 |
| 2000 | 4.95 |
| 2002 | 9.06 |
| 2004 | 11.34 |
| 2006 | 13.59 |
| 2007 | 15.31 |

Source: Portsworld.com, Department of Statistics, Malaysia

This is especially crucial in light of Malaysia's growing trade (see Table 2) and the steady increase of the container throughput volume of its ports (see Table 3).

In formulating a workable, comprehensive strategy to develop the maritime support services sector, Malaysia's economic planners must give thought towards developing flexible and responsive strategies to suit fast-changing market requirements and dynamics.

The maritime sector is perpetually subjected to a whirlwind of changes, and it is always at the mercy of these changes and so many external factors. In the context of its criticality to the trade and economic

growth of the country, Malaysia's policy-makers must give appropriate attention and much-needed strategic weight to the country's maritime industry. Local players in this sector must look beyond serving the limited domestic markets with limited scope of services. They must spread their wings to serve international clients with a broad range of high-value services to maintain their trade competitiveness.

Given this, the thrust of Malaysia's maritime support services strategies should be focused on addressing problems, weaknesses and inefficiencies of current practices and procedures and to further develop and strengthen the sector by way of capacity building. Such plans should be built on the premise of comprehensively addressing the infrastructural, procedural, operational and regulatory inadequacies or excesses all along the maritime transportation sector chain. This approach could lead towards the creation of flexible, nimble policies that would put Malaysia in good stead to meet future challenges, threats and competition in the trade and maritime industry and ride the waves of developments affecting the sector.

Improving the efficiency of maritime ancillary services to support maritime trade

Maritime ancillary services provide the pillars in which the maritime industry is built. Ancillary services have grown to become a very important cog in the wheel of the industry, as the success of renowned maritime nations such as Singapore and South Korea demonstrates, with their success often attributed to the availability of comprehensive maritime support services that make their ports attractive to shipping lines and shippers.

In the case of developing countries in the East Asian region, which has emerged as the fastest growing economic region in the world, the development of the maritime industry



will continue to be a priority as it prepares to increase its share of the rapidly expanding intra-regional maritime trade volume and growing need for maritime services.

As the maritime sector, an essential segment of the greater transport network, continues to face intense competition from other modes of transport, the players involved must position themselves to integrate seamlessly in the bigger picture of the transportation network. This should be achieved in a manner that meets the challenge of carrying and handling cargo in a speedy, efficient and cost-competitive manner. This will pressure maritime support services providers in developing nations to increase their capacity, improve their performance and enhance their competitiveness to weather the challenges arising from not only greater competition among themselves but also from other nations and transport modes as well.

There is a pressing urgency for maritime ancillary services companies in developing countries to brace for the impending competition in a further liberalised and globalised world of free trade. It is thus crucial that such companies enhance their competitiveness and efficiency to improve the country's competitive advantage in an increasingly competitive global market.

They need to face the challenges and realities of the environment they operate in, and overcome obstacles hindering their competitiveness decisively. It is imperative that the players and operators in this sector provide more efficient and cost-competitive services and leverage on the support and incentives already extended by the governments of their host countries. ■