

Malaysian Port Policy: Concentration or Dispersion?

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1. Introduction

What kind of policies has the Malaysian government been undertaking with regards to port development? Has there been one unified national port policy or an assortment of policies? This study investigates whether the Malaysian port policy has been one of concentration, i.e. discriminately promoting one port only, or at most two ports, or dispersion, i.e. supporting a large number of ports equably. Another possibility is that port policies have been a bit of both, depending on the forces influencing decision making, hence, appearing to be multifaceted or ambiguous. This paper will first present the relevant data that show the emergence of two major hub ports in the Malaysian Peninsula. This will be followed by an assessment of the policies and instruments used to implement port policies and evaluation of whether there has been a conscious port concentration policy or not. Finally, this paper will end with some suggestions for similar countries in terms of port policy through Malaysia's experience.

This study interviewed a fair number of important personnel who have been directly involved in port development and decision making at the federal government as well as local port authority level. Additional information and perspectives were also gathered from logistics players, shipping lines as well as shipping agents operating around the key ports, namely, Port Klang, Port of Tanjung Pelepas (PTP), Kuantan Port, Penang Port and Sabah ports. Field trips were made to these localities to get first-hand accounts of the feelings of the community of players around this port about federal port policies. In addition, discussions were made with officials in the MOT (ministry of Transport). Due to the need to maintain confidentiality, this paper will not reveal the identities of the people interviewed. Other information and data were obtained from published sources and relevant websites.

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Research questions:

There are several questions related to the central theme of port concentration versus port dispersion. For example:

- Should a small nation like Malaysia promote only one mega hub and load centre port or a few number of small hubs and load centres dispersed throughout different parts of the country to cater to different cargo hinterlands?
- What kind of policy instruments are effective for either strategy?
- To what extent should the government be involved or would it be better to leave it to market forces and private sector players?

In addressing the main theme, this study hopes to discuss and shed some light on these questions using the case of port development in Malaysia.

2. Distribution of Malaysian Ports

2.1 Outline

The Malaysian coastline has around 30 sizeable ports as can be seen from figure 1 and table 1 below. Some are small ports and jetties serving local markets; some are specialised ports serving particular commodity outputs of the immediate hinterland such as oil, gas, petrochemical products, marine products or timber products. Many are multi-purpose ports with facilities for containers and bulk cargo. The main ports are Port Klang which consists of Northport and Westport, Port of Tanjung Pelepas (PTP), Penang Port and Johor Port at Pasir Gudang. Bintulu Port in East Malaysia is a large port serving mainly the oil and gas industry.



Source: <http://www.portsworld.com/main/ports.htm>

Figure 1: Location of Malaysian Ports

2.2 Port Throughputs and Size

It can be seen from the statistics on container throughput (tables 1) that the dominant port till the end of the 1990s was Port Klang, and port activities and throughputs for most of this period were concentrated in the Northport terminal. Traffic at Northport grew as a result of economic development and industrialisation in the Klang Valley, a metropolitan area which consists of the capital city of Kuala Lumpur and its suburbs. This forms the immediate cargo hinterland for Port Klang. A second container terminal called Westport was created in the 1990s to cater to the growth in cargo traffic at Port Klang when Northport faced severe congestion.

Table 1. Container Throughput and distribution rate by Port, 1992-2009

Category	1992	1995	2000	2005	2006	2007	2008	2009
Port Klang	678(57.9)	1,134(57.0)	3,207(66.8)	5,544(46.0)	6,326(47.0)	7,119(46.9)	7,974(49.0)	7,310(31.3)
Northport	(0.0)	(0.0)	2,180(66.0)	2,632(47.5)	2,661(42.1)	2,806(39.4)	3,007(37.7)	2,858(39.1)
Westport	(0.0)	(0.0)	1,027(32.0)	2,911(52.5)	3,665(57.9)	4,313(60.6)	4,967(62.3)	4,451(60.9)
PTP	(0.0)	(0.0)	38(0.8)	4,177(34.7)	4,637(34.3)	5,298(34.9)	5,466(33.6)	6,017(25.8)
Penang Port	303(25.9)	434(21.8)	636(13.2)	795(6.6)	850(6.3)	928(6.1)	918(5.6)	959(4.1)
Johor Port	129(11.0)	303(15.2)	659(13.7)	842(7.0)	881(6.5)	927(6.1)	935(5.7)	845(3.6)
Kuantan Port	7(0.6)	23(1.1)	63(1.3)	119(1.0)	125(0.9)	128(0.8)	127(0.8)	132(0.6)
Bintulu Port	14(1.2)	25(1.1)	48(1.0)	148(1.2)	200(1.5)	252(1.7)	290(1.8)	248(1.1)
Kuching Port	41(3.5)	71(3.6)	111(2.3)	143(1.2)	152(1.1)	163(1.1)	172(1.1)	161(0.7)
Miri Port	(0.0)	(0.0)	6(0.1)	15(0.1)	17(0.1)	21(0.1)	28(0.2)	25(0.1)
Rajang Port	(0.0)	(0.0)	37(0.8)	54(0.5)	54(0.4)	66(0.4)	74(0.5)	66(0.3)
Sabah Ports	(0.0)	(0.0)	n.a	209(1.7)	227(1.7)	272(1.8)	293(1.8)	278(1.2)
Total (sum of above ports)	1,171	1,988	4,803	12,046	13,469	15,171	16,276	23,350

Unit: ' 000TEU, (%)

Note: This study was not able to obtain published 2001 data for PTP.

Source: Ministry of Transport and Port Authorities, 2010

It was only with the establishment of Westport, which came into operation in the mid-1990s which the cargo share of Northport began to decline. Still, Westport and Northport which together form Port Klang continued to command about 50% of the national container throughput by 2009 (table 1). Earlier, at its peak in 2001, Northport and Westport collectively held about 70% of the container throughput in the country, suggesting that there was only one main port or load centre catering to the exports and imports of the country. Even though Northport and Westport are regarded as two terminals of Port Klang they in many ways practise as two separate ports competing actively with one another for ship calls and cargo.

It can be seen from table 2 that Westport grew at a rapid rate beginning in the late 1990s, surpassing Northport's share after 2005 (table 1). From 2000 to 2008, the average annual growth rate of container throughput at Northport was 4.1% compared to 21.8% at Westport. Westport was a new port terminal created in the early 1990s, equipped with new facilities and capacities to cater to large ships. Northport, on the other hand, has to make do with expansion and upgrading of existing capacities. This phenomenon suggests that greenfield development of ports or terminals will lead to faster cargo growths than expansion of old capacities. However, this is often undertaken at a much higher cost involving investment in brand new facilities. In 2008, Northport moved about three million TEUs whereas Westport was moving close to five million TEUs. The two terminals together, which form Port Klang, moved about eight million TEUs in 2008.

Table 2. Annual Growth Rates of Container Throughput by Port, 1992-2008

Classification	1992	1995	2000	2005	2008	2000-2008
Port Klang	11.5%	20.1%	25.7%	5.7%	12.0%	12.1%
Northport			27.4%	-2.1%	7.1%	4.1%
Westport			22.4%	13.9%	15.2%	21.8%
PTP				8.9%	3.2%	86.4%
Penang Port		12.2%	12.2%	3.0%	-0.9%	4.7%
Johor Port		28.5%	18.1%	4.5%	0.8%	4.5%
Kuantan Port		85.3%	19.9%	-3.0%	-0.4%	9.2%
Bintulu Port		17.1%	30.7%	2.8%	15.2%	25.3%
Kuching Port		15.4%	13.9%	1.3%	5.3%	5.7%
Miri Port			117.2%	2.9%	32.7%	22.5%
Rajang Port			-0.3%	1.2%	12.8%	9.1%
Sabah Ports				0.2%	7.8%	
Total (sum of above ports)		19.8%	20.5%	6.2%	7.3%	16.5%

Source: Ministry of Transport and Port Authorities, 2010

Even though a large portion of the cargo going through Port Klang have for many years been locally generated exports and imports for the domestic market, over the years, transshipment cargo became more and more important, especially after the establishment of Westport. This meant that Port Klang was no longer just the national load centre and gateway port for Malaysian exports and imports. It has also become a transshipment hub for regional cargo, as can be seen from the proportion of transshipment cargo in the total cargo throughput, especially after the creation of Westport (see table 3). By 2008, transshipment container cargo at Port Klang constituted close to 60% of total container throughput. It is widely known that Westport accounted for the majority of the transshipment cargo while Northport has been responsible for the movement of local cargo. According to one published source, in 2006, 73% of the transshipment cargo went through Westport and 27% through Northport (see tables 4 and 5).

Table 3. Port Klang Container Throughput by Type, 2004-2008 (TEU)

	2004	2005	2006	2007	2008
Total	5,243,593	5,543,527	6,326,295	7,118,714	7,973,579
Import	1,294,269	1,342,901	1,403,946	1,527,893	1,629,977
Export	1,234,229	1,276,661	1,367,625	1,474,193	1,598,544
Transshipment	2,715,095	2,923,965	3,554,724	4,116,628	4,745,058
% Share					
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Import	24.7%	24.2%	22.2%	21.5%	20.4%
Export	23.5%	23.0%	21.6%	20.7%	20.0%
Transshipment	51.8%	52.7%	56.2%	57.8%	59.5%

Table 4. Distribution of Type of Container Cargo between Northport and Westport

Container Type	Northport	Westport
Laden	63%	37%
Empty	54%	46%
Transshipment	27%	73%
Overall	42%	48%

Source: Malaysian Business Magazine, May 16 - 31, 2007; Leong and Khairuddin, 2008.

Table 5. Proportion of Cargo by Type for Northport and Westport, 2006

Local/ Transshipment	Northport	Westport
Local Cargo	64%	29%
Transshipment Cargo	36%	71%

Source: Malaysian Business Magazine, May 16 - 31, 2007; Leong and Khairuddin, 2008

A notable change in national port throughputs was the phenomenal rise in movement of containers through the Port of Tanjung Pelepas (PTP) after it came into operation in 2000 (see tables 1 and 2). PTP's throughput jumped from virtually nothing to 2,668,512 TEUs in 2002. Its average annual growth rate from 2000 to 2008 was 86.4% (table 2). Almost immediately after its launched, PTP had a throughput larger than either Northport or Westport. Since then it has accounted for about one-third of the national container throughput.

The rise of PTP was due to its tie-up with Maersk Line which brought in mostly transshipment cargo. Maersk effectively moved much of its activities from Singapore Port to PTP during this time. It can be seen from tables 6 and 7 that, for years where data are available, around 95% of PTP cargo has been transshipment cargo. Compared to PTP, the share of transshipment cargo in Port Klang was between 50% and 60% since 2004. The share of transshipment cargo was much smaller for Penang Port, Johor Port and Kuantan Port which are ports catering to local indigenous cargo. Both PTP and Port Klang can be considered transshipment hub ports given the high percentage of transshipment cargo. Of the two, PTP is a specialised transshipment port whereas Port Klang has a nearly equal balance of indigenous and transshipment container cargo. The growth of the two ports in the first decade of 2000 has come from regional transshipment cargo. In 2008, PTP handled more than 5 million TEUs of which 95% was for transshipment. Port Klang handled about 8 million TEUs of which around 5 million were transshipment boxes.

Table 6. Container Throughput by Type, 2003-2008 (TEUs)

Classification		2003	2004	2005	2006	2007	2008
Port Klang	Total		5,243,593	5,543,527	6,326,295	7,118,714	7,973,579
	Laden		NA	4,382,497	5,002,032	5,701,608	6,376,832
	Empty		NA	1,161,030	1,324,263	1,417,106	1,596,747
	Import		1,294,269	1,342,901	1,403,946	1,527,893	1,629,977
	Export		1,234,229	1,276,661	1,367,625	1,474,193	1,598,544
	Transhipment		2,715,095	2,923,965	3,554,724	4,116,628	4,745,058
PTP	Total	3,316,954	3,835,970	4,177,123	4,637,418	5,297,631	5,466,191
	Laden	NA	NA	NA	NA	NA	NA
	Empty	NA	NA	NA	NA	NA	NA
	Import	43,594	42,194	40,457	44,528	51,574	97,383
	Export	104,658	125,615	151,202	161,878	173,759	214,404
	Transhipment	3,168,702	3,668,161	3,985,464	4,431,013	5,072,298	5,154,404
Penang Port	Total			795,289	849,730	925,991	917,631
	Laden			NA	NA	NA	NA
	Empty			NA	NA	NA	NA
	Import			357,213	406,492	410,282	401,727
	Export			372,576	422,216	488,254	487,049
	Transhipment			65,500	21,022	27,455	28,855
Johor Port	Total			842,303	880,611	927,284	934,767
	Laden			NA	NA	NA	NA
	Empty			NA	NA	NA	NA
	Import			323,331	335,335	363,672	374,281
	Export			382,675	410,422	421,045	400,849
	Transhipment			136,297	134,854	142,567	159,637
Kuantan Port	Total		122,745	119,067	124,834	127,600	127,061
	Laden		NA	NA	NA	NA	NA
	Empty		NA	NA	NA	NA	NA
	Import		59,760	55,975	59,581	61,892	61,936
	Export		62,072	61,842	64,167	65,577	64,545
	Transhipment		913	1,250	1,086	131	580
Bintulu Port	Total	145,661	143,783	147,820	199,704	251,800	290,167
	Laden	NA	NA	NA	NA	NA	NA
	Empty	NA	NA	NA	NA	NA	NA
	Import	18,648	27,380	29,688	37,398	50,050	72,839
	Export	22,913	31,240	34,241	44,366	62,320	78,645
	Transhipment	104,100	85,163	83,891	117,940	139,430	138,683
Kuching Port	Total		141,227	143,096	152,394	163,338	171,943
	Laden		NA	NA	NA	NA	NA
	Empty		NA	NA	NA	NA	NA
	Import		71,720	73,703	78,022	84,143	87,836
	Export		68,509	68,799	73,524	78,325	82,235
	Transhipment		998	594	848	870	1,872

Source: Ministry of Transport and Port Authorities, 2010

Table 7. Proportion of Container Throughput by Type, 2003-2008 (%)

Classification		2003	2004	2005	2006	2007	2008
Port Klang	Total		100.0%	100.0%	100.0%	100.0%	100.0%
	Import		24.7%	24.2%	22.2%	21.5%	20.4%
	Export		23.5%	23.0%	21.6%	20.7%	20.0%
	Transshipment		51.8%	52.7%	56.2%	57.8%	59.5%
PTP	Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Import	1.3%	1.1%	1.0%	1.0%	1.0%	1.8%
	Export	3.2%	3.3%	3.6%	3.5%	3.3%	3.9%
	Transshipment	95.5%	95.6%	95.4%	95.5%	95.7%	94.3%
Penang Port	Total			100.0%	100.0%	100.0%	100.0%
	Import			44.9%	47.8%	44.3%	43.8%
	Export			46.8%	49.7%	52.7%	53.1%
	Transshipment			8.2%	2.5%	3.0%	3.1%
Johor Port	Total			100.0%	100.0%	100.0%	100.0%
	Import			38.4%	38.1%	39.2%	40.0%
	Export			45.4%	46.6%	45.4%	42.9%
	Transshipment			16.2%	15.3%	15.4%	17.1%
Kuantan Port	Total		100.0%	100.0%	100.0%	100.0%	100.0%
	Import		48.7%	47.0%	47.7%	48.5%	48.7%
	Export		50.6%	51.9%	51.4%	51.4%	50.8%
	Transshipment		0.7%	1.0%	0.9%	0.1%	0.5%
Bintulu Port	Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Import	12.8%	19.0%	20.1%	18.7%	19.9%	25.1%
	Export	15.7%	21.7%	23.2%	22.2%	24.7%	27.1%
	Transshipment	71.5%	59.2%	56.8%	59.1%	55.4%	47.8%
Kuching Port	Total		100.0%	100.0%	100.0%	100.0%	100.0%
	Import		50.8%	51.5%	51.2%	51.5%	51.1%
	Export		48.5%	48.1%	48.2%	48.0%	47.8%
	Transshipment		0.7%	0.4%	0.6%	0.5%	1.1%

Source: Ministry of Transport and Port Authorities, 2010

From 2004 to 2008, 80% of Port Klang's containers have been laden, suggesting that it has been also functioning effectively as the nation's gateway port besides being a regional transshipment hub (table 7). Based on the data, one can characterise Port Klang as a dual function port, i.e. a gateway port for international and domestic cargo as well as transshipment hub for regional cargo, whereas PTP has been single-mindedly a regional container transshipment and repositioning hub port.

The situation with the smaller ports was symptomatic of the rise of PTP and the continuous growth of Port Klang in the 1990s till the present. Looking at the data in tables 1 and 2, it is clear that the share of national container cargo of the smaller ports have either been dropping or stagnating at a low level. The two bigger second tier ports, Penang Port and Johor Port, have seen their share of national container throughput dropped to around 5% by 2008. The two ports did experience moderate growth higher in the 1990s and lower in the 2000s (table 2). However, their average growth rates of close to 5% a year could not match that of Port Klang and PTP. Most of their container cargoes have been imports and exports for their immediate hinterland (tables 6 and 7). The growth of these ports, hence, has been tied to the rate of growth of economic activities in the immediate surrounding areas. PTP and Port Klang could grow faster than these ports by serving a larger regional hinterland through their transshipment activities.

The lack of cargo growth in Kuantan Port on the east coast of Peninsular Malaysia reflects the slower growth of economic activities there. Furthermore, with good road infrastructures, cargo from the Kuantan Port area could be trucked to Port Klang. The situation was the same for ports in Sabah and Sarawak. The slow economic growth there, especially the lack of industrial activities, explains why these ports remain relatively insignificant (see table 1). Transshipment cargo has been insignificant in these ports.

It can be seen from table 8 that corresponding to the high throughputs Port Klang far outnumbered the other ports in terms of container ship calls, hence, the larger volume of container throughput. It is surprising to note that PTP has a disproportionately low number of ship calls given that the port handled as much containers as Port Klang. There could be several reasons for this. One is that very large container ships called at PTP, loading and discharging large numbers of containers per call. Another reason could be double counting of containers (which happens at all ports) as well as a large amount of container restowing and repositioning by a few top shipping lines at the port, namely Maersk and Evergreen. This issue is difficult to verify. The much lower container throughput in the other ports corresponded with the lower number of container ship calls.

Table 8. Container Ship Calls in Selected Ports, 2006-2008

Classification	2006	2007	2008
Port Klang	11,543	12,019	11,675
PTP	3,367	3,747	3,280
Penang Port	1,456	1,402	541
Johor Port	2,975	2,895	1,752
Kuantan Port	518	421	412
Bintulu Port	1,023	933	481
Kuching Port	890	910	150

Source: Ministry of Transport and Port Authorities, 2010

3. Key Port Policies

The analysis of port statistics above reveals that there are two principal container ports in the country, namely, Port Klang, which consists of Northport and Westport, and PTP. This section will examine Malaysian policies and see to what extent the pattern of port development corresponds to these policies. Some of these policies were directly aimed at influencing port development while others were general policies on economic and infrastructural development, such as privatisation, trade and investment promotion policies. Of the policies directly aimed at influencing port development, the most frequently mentioned is the National Load Centre policy which promotes Port Klang as the load centre for the shipment of import and export cargo. Malaysian shipping lines have been encouraged to use Port Klang for international shipments, feeding cargo from the smaller ports to Port Klang. The other important policies are the port privatisation and transshipment policies.

Port infrastructure development plans are outlined in every five-year plan and these plans have guided government investments in port facilities. Most investments were on upgrading and expansion of federal ports. At the same time, the privatisation policy called for private sector participation, and almost all the major federal ports have been privatised as a result. Following privatisation, the government, instead of directly investing in port development, provided assistance to the private sector. This approach of developing privatised ports by giving assistance to the private sector can be risky, as it can lead to abuse. The scandal surrounding the development of the Port Klang Free Zone (PKFZ) is related to the way the government got involved in supporting the private sector in port development.

3.1 Load Centre Policy

The load centre policy was initiated in 1993 as an attempt to boost Port Klang's role as the principal gateway for imports into and exports from the country as well as making it a regional hub port that could compete with the Port of Singapore. Before then, Singapore was the only transshipment hub for the Southeast Asian region, and much of Malaysia's cargo was also going through it. Due to proximity to Singapore, cargo from several Malaysian ports, especially those in East Malaysia and the eastern seaboard of Peninsular Malaysia, were feedered to Singapore port using feeder vessels. These ports are actually closer to Singapore than Port Klang. A considerable amount of cargo from Penang Port, which is closer to Port Klang, was also going to Singapore Port because of the higher number and frequency of ship calls and connectivity at Singapore. At that time, it was thought that in order to compete with Singapore Port, Malaysia has to concentrate cargo at, and enhance the strength of, one single port instead of developing a large number of small and medium-sized ports (Interview with Datuk Rajasingam, former General Manager of Port Klang Authority). Hence, a policy called the load centre policy was concocted.

It was explicitly stated in the Seventh Malaysia Plan (1996-2000) that cargo from other Malaysian ports would be consolidated where possible through Port Klang (See Wong 2003). According to the government (Wong, 2002 and 2003), the load centring strategy for Port Klang included:

- Establishment of close linkages with regional ports, as well as other ports in Sabah and Sarawak through provision of feeder services at competitive rates.
- Restructuring of rebates and other incentives.
- Maximum back-up facilities, including simplification of custom procedures.
- Volume discount.
- Foreign equity participation in the Terminal Dedicated Berth Scheme.
- Supply of efficient facilities and the gazetting of a free commercial zone at Port Klang.

The meaning of a national load centre itself is multifarious. First, Port Klang would be the principal gateway for cargo into and out of the country. Hence, it would serve as a domestic transshipment hub for cargo to and from other domestic ports. Cargo from Malaysian ports would feeder to Port Klang instead of Singapore

Port, given the national load centre policy. At the same time, Port Klang would also serve as a transshipment hub for regional cargo, and this was conveniently included as an adjunct to being a national load centre port. Based on feedback from industry players, a large proportion of Port Klang's transshipment cargo has been regional cargo from as far away as the Indian sub-continent and not just domestic cargo from domestic ports. There were also cargo from China and the Far East transhipped at Port Klang to ports in the region. Any policy instruments aimed at boosting Port Klang as the national load centre for domestic transshipment and gateway cargo would automatically helped it function as a regional transshipment hub port.

The decision in 1993 to select Port Klang as the national load centre was because it was the biggest domestic port at the time and had the best infrastructure. It was the only port with the harbour depth to receive large vessels. The government provided support to develop port infrastructures, especially capital expenditure on dredging the harbour. Government support for port development has largely been supply-driven (See Wong 2002 and UNESCAP). In order to help realise Port Klang as the national load centre the government helped expand its facilities. A year earlier, Port Klang has begun developing Westport as part of its expansion.

While the government supported infrastructural development in Port Klang as part of the national load centre policy much of the policy was indicative, i.e. a statement of goals, with the hope that industry players, such as freight forwarders, shippers and shipping lines, would use Port Klang as the load centre. Needless to say, industry players were driven by their own economic and profit rationality so that their use of Port Klang was as much a result of the growth in cargo around the port as the government's designation of Port Klang as the national load centre. The indicative nature of the policy was clear in that players were not forced to use the port. The port of choice was left to the decision of players. Tariffs like terminal handling charges however were kept low by the government to attract shipping lines to call at the port, often to the unhappiness of port operators. Port operators have requested for upward revision of the tariffs, but the MOT and the Port Authority have consistently resisted this.

Besides the federal government undertaking dredging works for the port, there were also other subsidies such as the subsidy on charges on inter-terminal transfers by road and rail. Haulage charges were subsidised by the Port Klang Authority and paid directly to KTM Bhd to facilitate transshipment activities between Northport and Westport terminals (http://www.portsworld.com/news/pw1may28_07.htm).

This inter-terminal transfer subsidy was important as Westport is located about 30 km away from Northport, without which the full inter-terminal charges would be borne by shipping lines.

3.2 Privatisation with Competition Policy

Another important policy which has a direct impact on port development is the privatisation policy. When Mahathir took office as Prime Minister in the early 1980s he initiated a full-scale privatisation drive, privatising many services hitherto operated by government departments and government statutory bodies. The first port activity to be privatised was Klang Port Authority's container terminal. A private company, Kelang Container Terminal Sdn Bhd, took over the running of the container terminal in 1986 (Klang Port Authority, Dec. 1992). The other port services remained under the Klang Port Authority. Three years later, on 1 December 1992, the whole of Northport was privatised, taken over by a new port operator, Kelang Port Management (KPM). The services and facilities privatised included "stevedoring and related wharfside operations, the second container terminal, the dry bulk terminal, liquid bulk terminal, pilotage, engineering, security, fire services and all other support services" (Klang Port Authority, Dec. 1992, p.9). Around the same time, a brand new terminal, Westport, was being built as a privatised port, and this was expected to compete with Northport. The policy was privatisation with competition and not monopolistic privatisation. How this squares with the centralisation theme of the load centre policy is an issue that continues till today?

With privatisation, Klang Port Authority (later called Port Klang Authority) was essentially reduced to being a port regulator and trade facilitator. Northport and Westport became private entities beginning 1992. This set in motion a wave of privatisation which spread to other federal ports. Over a short period, all the major ports, Johor Port, Kuantan Port, Kemaman Port and Bintulu Port, were privatised, and Penang Port was corporatised. The justification for privatisation was to infuse commercial principles into port operations, make port operations more efficient, and encourage market competition between ports and terminals. There might have been other political agenda behind port privatisation as it is important to note here that Klang Port Authority was not a loss-making operation at the time of privatisation. In fact, it was cash rich (Interviews with former port personnel).

According to Rajasingam who was the General Manager at the time of privatisation, the reason why Klang Port Authority could not operate like a private

sector organisation on commercial principles was its lost of autonomy in the 1970s as a statutory body. Following the Harun Salary Commission report on statutory bodies and local government, employment condition at Port Klang was made similar to government departments. It lost its autonomy and independence in hiring and firing. Stevedoring services which were contracted out were taken back. The quality of port services began to decline and inefficiencies beset the port. To correct this, the government under Mahathir privatised the port. It is difficult to speculate whether Port Klang could have performed equally well as an autonomous statutory body rather than a privatised port. As a privatised entity, earnings and profits go to the private operator.

Port privatisation was introduced at the same time as the load centre policy. These two policies shaped the government's attitude towards Northport and Westport. Government investments and support as well as ad hoc measures were often framed under either of these policies. As privatised ports, Northport was expected to compete with Westport on equal ground. Competition between the two would make Port Klang as a whole efficient and attractive to shipping lines and shippers. Competition would force both operators to perform productively. As both are parts of a load centre port, the government would encourage main lines and feeder lines to call at either port. In principle, there would be no favouritism. Both Northport and Westport would receive similar administrative treatment, notwithstanding the economic rivalry between the two. How the two compete with one another as one port has been the story of Northport and Westport since the inception of the dual policies of load centre and privatisation with competition.

At the time of the privatisation of Northport in 1992, it was thought that Westport, which was being constructed, would be run by Klang Port Authority. However, Westport was also privatised shortly after. This decision was made at the highest level of government. A privately-run Westport would provide healthy competition to a privately-run Northport. This in a way prevented the creation of a private monopoly in one port.

The creation of the brand new Westport terminal, 30 km away from Northport, was a supply-driven strategy. According to Rajasingam (interview), with increase in traffic, ships were waiting to berth at Northport. The construction of Westport would help turn things around so that berths would wait for ships. Westport essentially had to undertake intensive marketing to attract ship calls and cargo. Shippers and freight forwarders had to be convinced to relocate at Westport given

that most of their facilities would be in the vicinity of the older Northport terminal. Westport ended up competing aggressively with Northport for cargo and ship calls. Main lines would choose to call only at one of the two whereas feeder lines may call at both. It was truly a situation of privatisation with competition. The question is whether the competition went beyond what was envisaged or desired. According to Rajasingam (interview), Westport and Northport should have competed on services. Instead these two port terminals gave discounts and rebates to shipping lines to woo them to their respective terminals, hence, benefiting the lines. The bargaining power of the main shipping lines was enhanced as a result of the rivalry between Westport and Northport. Main shipping lines have occasionally shifted from one port terminal to the other. Revenues aside, the intense competition nevertheless succeeded in boosting throughputs for Port Klang as a whole throughout the 1990s and 2000s.

Both port terminals continuously expanded their facilities. In 2000, Westport got a global terminal operator, Hutchinson Port Holdings (HPH), to take up 30% stake in the port. Both positioned themselves as a load centre port. Both also positioned themselves as regional transshipment hubs. As shown in a study by Leong and Khairuddin, facilities in both port terminals are comparable. Overtime, some degree of market differentiation developed between the two in terms of the geographical regions that were better served by one then the other. This was also reflected in the slightly different routes and frequencies of the lines calling at the two port terminals. One port terminal would be slightly more oriented towards say West Asia while the other towards the USA. Nevertheless, there were still a considerable amount of overlap in their markets. One thing that needs to be pointed out here is that the two collectively never developed into a threat to Singapore Port. It was obvious that Port Klang did not succeed in totally wooing back the Malaysian cargo that was going through Singapore Port. Malaysian cargo continued to go through Singapore Port even as cargo volume in Northport and Westport grew.

3.3 PTP and Regional Transshipment Hub

Towards the end of the 1990s the government embarked on another national level port agenda. This time it was to establish a major transshipment hub port along the same trade route as Port Klang and Singapore. This agenda was not formulated as a national policy unlike the national load centre policy. Nevertheless, it is undeniable that the setting up of the Port of Tanjung Pelepas (PTP) was a high-level policy decision made with the primary purpose of competing with the Port of Singapore as a regional transshipment hub (See Leong and Khairuddin, 2008, and

Wong, 2002). PTP was designed to capture the transshipment business of Singapore Port, especially at a time when main shipping lines were getting frustrated with the high charges and monopolistic attitude of the Singapore. The cargo generated in the Johor hinterland at the time would not be able to support such an ambitious port. PTP would compete directly with Singapore Port for regional transshipment traffic in a way that the combined force of Northport and Westport could not do. Given the existing privatisation with competition policy, the privately-operated PTP would not only be competing with Singapore Port but also Northport and Westport. This national transshipment hub policy in effect added one more major hub port to the East Asian region.

Another reason for the setting up of PTP was the perceived “leakage” of Malaysian cargo to Singapore Port. Even after the promotion of Port Klang as the national load centre, it was reported in the late 1990s that about 60% of Malaysian trade continued to pass through Singapore (Leong and Khairuddin, 2008). Perhaps, this time, PTP could get back the Malaysian cargo from Singapore, a large proportion of which would have been from the state of Johor which neighbours Singapore.

PTP is located at the south-western tip of Johor and right next to Singapore. It was launched in 1997, and effective operations began in 2000, with astounding container throughputs by 2002 (see earlier tables). PTP, despite being a privatised port, received a great deal of support from the government, justified in part by the fact that its principal rival, Singapore Port, also receives government support.

The assistance given to PTP has been documented in Leong and Khairuddin (2008). They represent the policy instruments used to assist PTP which included:

- Financial support from the government or institutions controlled by the government. For instance, in the Asian financial crisis of 1997-98 when PTP was facing financial difficulty, Khazanah Nasional, an investment arm of the government, came to its rescue and invested in PTP. The government also encouraged a syndicate of Malaysian banks to provide RM2 billion loan.
- Construction of road and rail infrastructures. The government built a 6 km stretch of road linking PTP to the North-South Highway and the Second Link Expressway crossing to Singapore. Through the national rail company, Keretapi Tanah Melayu Berhad (KTMB), the government constructed a

30.5 km rail link from PTP to Kempas to connect it to the national rail network at an estimated cost of RM476 million.

- Granting of Free Zone status. The government granted Free Zone status to PTP so that it could develop its land reserve for district park and logistics activities.
- Approval of port tariff structures. PTP received the support of the MOT to establish a competitive and attractive tariff structure which could compete with Singapore Port for main shipping lines. Port tariffs are regulated by the Ministry and port authorities.
- Exemption on truck levy. In January 2001, the Ministry of Finance removed a levy on container trucks bringing containers from the PTP to Singapore and vice versa, to encourage Singapore exporters and importers to go through PTP. This levy was introduced in the 1990s to discourage Malaysian trucks from moving cargo to Singapore Port. The removal of this levy for PTP only meant that truck operators saved RM200 per trip on laden containers if they brought cargo from Singapore to PTP or from PTP to Singapore.

The above list of government support was the policy instruments introduced to support PTP and the regional transshipment hub agenda. The policy instruments used to develop and promote PTP were by and large similar in kind as those which the other major ports, including Northport and Westport, received albeit on different quanta. The main policy instruments extended to the various federal ports to assist their development were financial support, easy land lease payments, infrastructure development, and the granting of Free Zone status. Development expenditures for ports were normally outlined in the five-year plans. On these, some ports received more than others. It was widely known in port circles, for instance, that the private operator of Westport received large amounts of soft loans from the government for its development. PTP also received comparable financial support while other ports did not.

Federal ports receive federal government support whether they are privatised or corporatised. One would have thought that the privatisation and market competition policy would make favouring one port over another difficult. Favouritism was nonetheless practised in accordance with expediency and how the government and political leadership view the strategic importance of the port to the nation. Most government assistance has therefore gone to the strategic ports of Port Klang and PTP. Whatever assistance has been given to Northport and Westport, PTP would also

like to receive. For example, PTP asked for the relaxation of cabotage policy that was granted to Port Klang to facilitate Port Klang's load centre and transshipment activities between Malaysian ports.

This section has discussed the three overarching policies influencing port development, namely, the load centre policy, privatisation with competition, and the national agenda to set up and promote PTP as a regional transshipment hub to rival Singapore Port. In addition to these, where the cabotage policy was felt to hamper the objectives of these policies, the restrictions were lifted. In a way, port development has been regarded as more important than protecting domestic shipping. Likewise, the levy on container trucks crossing into Singapore and back was also lifted for PTP cargo.

4. Evaluation of Policies and Policy Instruments

The government did not interfere in the competition between PTP, Northport and Westport. The privatisation of Westport itself and the subsequent competition between Westport and Northport was antithetical to the concept of a load centre (interview with Datuk Rajasingam, former General Manager of Port Klang.). Rajasingam believed that given the size of the domestic cargo there should be only one mega hub port that could compete with Singapore. Another problem was the way Westport and Northport competed for line calls and cargo. Instead of competing on performance and services, the ports resorted to giving discounts and rebates on the official tariffs to attract shipping lines. Price cutting was certainly not the intention of the load centre policy. The lower tariffs would force terminal operators to cut cost, and this might lead to port terminals compromising on services. Overall, it would not be good for the nation. The only beneficiaries were the shipping lines.

There are now essentially four hub ports competing in the Southeast Asian market, namely, Northport, Westport, PTP and Singapore Port. The extent of competition can be seen in lines switching between Northport, Westport and PTP. PTP also grew as a result of Maersk Sealand and Evergreen switching the bulk of their operations from Singapore to PTP. Other main lines have also switched from one port to the other.

Despite the denting of the national load centre policy as a result of the privatisation and development of Westport and PTP, the load centre policy continued to be mentioned as the thrust of the government's port policy in practically every five-year plan since it was started. Designating Port Klang as the national load centre justified plans and projects aimed at expanding Port Klang. For example, the development of the controversial, and by now scandalous, Port Klang Free Zone (PKFZ) using public funds could be justified as an effort to boost the national load centre. An important question to ask is whether Port Klang grew as a result of the government's load centre policy or other circumstances which were outside the purview of the policy?

It is important to note that the general economic growth in the country has contributed to the growth of Port Klang throughout the 1980s, 1990s and 2000s. Port Klang is located next to the capital city of Kuala Lumpur. There was rapid industrial and commercial development in the hinterland of Port Klang, known as the Klang Valley, giving rise to huge imports and exports to serve the growing population and industries. All transport infrastructures – highways, rail and air - converge in the Klang Valley, connecting the Klang Valley and Port Klang to all parts of the country so that goods could be conveniently moved by trucks or rail to Port Klang. The construction and growth of the Kuala Lumpur International Airport (KLIA) also generated economic growth and some amount of sea-air multimodal cargo for Port Klang through the I-Port concept promoted by MasKargo.

In other words, whether there was a load centre policy or not indigenous base cargo was growing around Port Klang. In conjunction with this, there was a large community of freight forwarders and logistics operators around Port Klang, providing efficient services to shippers using Northport and Westport. This vibrant private sector together with the large domestic and foreign investments pouring into the Klang Valley throughout the 1980s and 1990s would have by itself spurred growth in Northport and Westport. The government policies and policy instruments ensured that supply of port services matched the growing needs of manufacturers, exporters and importers. Port policy instruments were therefore supply-driven while demand for port services has been due to the private sector and general economic growth.

In this regard, the government's investment promotion and industrialisation policies played an equally important role in assisting the growth of not only Port Klang but also the other Malaysian ports. It can be seen that where investments and

economic growth have been slow the ports serving the area have also not grown. This was the case of Kuantan Port and ports in Sabah and Sarawak. Infrastructural development policies were also important. Throughout the 1980s and 1990s, infrastructural development was concentrated along the west coast of Peninsular Malaysia, converging in the Klang Valley. Port Klang therefore has practically all the multimodal connections needed by any major port. Road and rail infrastructures on the east coast of Peninsular Malaysia, Sabah and Sarawak were poorly developed. Links to their ports were therefore either poor or non-existent. This together with the general lack of economic activities explain why they have not grown as much as Port Klang. Most of the long-haul international shipments from these places have to go through Port Klang or Singapore Port. Going through Port Klang validated the load centre policy even though it was for commercial reasons.

An effect of the port privatisation policy was that private ports were free to invest in developing themselves into hub ports. However, investments tended to be so huge that no private port operators had on their own done so. Most would request for government financial support to undertake major investments of a strategic nature. So all ports ended up seeking help from the federal government for major expansion works. It was felt in the smaller ports that in order for them to become large-scale major ports they would have to be a transshipment hub, acknowledging the fact that local cargo alone could not support any major port expansion plan. To become a transshipment hub, ports would have to attract main lines, meaning large ocean-going vessels. To do that, ports would have to undertake expensive dredging which they could not afford. So all ports ended up seeking federal government assistance for major development plans, whether they were privatised, corporatised or controlled by state governments. So while there has been some uniformity in federal government assistance to all ports, major developments required special treatments not given to all ports. This was clearly the case for PTP.

The support for PTP to become a competitive transshipment hub underscored the use of case-specific policy instruments. PTP was regarded as a special case given its strategic purpose. In the 1990s, a levy was imposed on trucks crossing the Johor Causeway to deter cargo from going through Singapore Port. This was supposed to aid the load centre policy, but for PTP it worked against its transshipment objective, especially in capturing Singapore cargo. The levy was RM200 per truck entering Singapore and RM100 per truck returning from Singapore. This levy was waived for container trucks going to and from PTP to Singapore to enable PTP to lure Singapore cargo. The use of case-specific policy instruments was based on expediency. The subsidy on inter-terminal transfers by road and rail between

Northport and Westport was also deemed necessary given the distance between the two and the goal of promoting transshipment activities at both ports. Whenever necessary the government would craft policy instruments to help promote specific port activities.

As mentioned earlier, port promotion and marketing, assistance on capital dredging, and setting up of conducive administrative procedures were uniformly extended to all federal ports although to different degrees. The streamlining of bureaucratic procedures and systems improvements at ports were very powerful policy instruments that helped to quicken the movement of cargo, hence, the productivity of the port. These were within the power of the MOT to administer. Much delay have been due to administrative procedures rather than physical movements inside the port. The MOT together with respective port authorities has successfully gotten several ports to operate 24 hours a day. In order to do this, the Ministry has to get all relevant government agencies, such as customs, immigration, quarantine, health, etc., to work 24 hours a day. Another important change, beginning at Port Klang, was getting customs to conduct 5% checks instead of 95% (interview with MOT officials). The setting up of one-stop agencies, gathering all agencies in one place, to facilitate approvals of applications from customers has helped port customers, such as shipping lines, warehouse operators, importers and exporters, and custom brokers, expedite their business transactions. The MOT was also able to get ports to accept a shorter notice for ship arrival (Interview with MOT officials).

Beyond this set of MOT assistance to ports, the federal government could extend discretionary assistance depending on the status of the port. According to the MOT, administrative decisions on which port to be given greater support were based on the potential of the port, such as its geographical location, cargo hinterland, existing physical attributes and ability to attract lines (interview with MOT officials). Even here, there were exceptions to the rule. PTP was developed as a green field port. There were few noticeable attributes to judge the potential of this port, yet it received substantial government support. Government assistance to ports was anything but uniform and across-the-board. There were also questionable government involvements in port-related activities which were either unproductive or disastrous. The construction of inland ports at Segamat and Ipoh has not helped ports. Likewise, the Port Klang Free Zone (PKFZ) project was a waste of public resources.

5. Port Concentration or Dispersion Policy?

The above analysis of Malaysian port policies and port development can help answer the question of whether Malaysian port policy has been one of port concentration or dispersion. Ports are fairly well dispersed across the Malaysian coastline. The major ports on the western seaboard of Peninsular Malaysia are Penang Port and Port Klang. On the eastern seaboard are Kuantan Port and Kemaman Port. In the south are Johor Port and PTP. In East Malaysia, the major ports on the Sabah coastline are Tawau Port, Sandakan Port and Kota Kinabalu Port. In Sarawak, the major ports are Kuching Port, Bintulu Port, Miri Port and Sibu Port. These ports serve their respective hinterland. Penang Port is primarily a feeder port to Port Klang and Singapore Port with some mother vessels calling directly.

The size of the ports reflects the extent of economic development in their hinterland. As export-led industrialisation and general economic development have been concentrated in the western part of Peninsular Malaysia, mainly in the Kuala Lumpur and the states of Selangor, Penang and Johor, Port Klang, Penang Port and Johor Port became the larger ports. Kuantan Port and Kemaman Port serve the oil and gas and petrochemical industries nearby. However, with the development of good road infrastructures connecting the eastern part of Peninsular Malaysia to the west, especially Port Klang, cargo from the east could be trucked to Port Klang. Kuantan Port has hardly grown as a result.

Ports are important in Sabah and Sarawak because the road infrastructures are poorly developed. Shipping in some cases is the only viable mode of cargo transport. However, ports in these two states remained small, except for the oil and gas portion of Bintulu Port. The area surrounding Bintulu Port is a major natural gas producing area. All in all, there are ports dispersed fairly evenly across the coastline. The ports are however of different sizes, with Port Klang and PTP far surpassing the other ports in terms of cargo throughput.

As explained earlier, the growth of Port Klang is derived from the economic growth in its surrounding hinterland. As a result, the government has given more attention to Port Klang than the other ports. PTP is the only anomaly. It was created by policy to be a transshipment hub for the region. So for Port Klang and PTP, one sees a port concentration policy. A host of supporting policy instruments ranging from federal government financing and infrastructural development to regulatory

policies, such as the relaxation of cabotage and levies, were used to assist the development of these two ports into major hub ports.

To sum up, one can say that Malaysian port policies have been concentrated on developing Port Klang and PTP into major hub ports. Port Klang is designated the national load centre and by this the government has hoped Malaysian cargo would go through Port Klang instead of Singapore Port. The load centre policy however is mostly indicative as shippers and shipping lines are not forced to use Port Klang. The privatisation of Port Klang into two port terminals, Northport and Westport, led to intense competition between the two. The competition in turn pushed both to be aggressive at marketing and invest heavily on facilities to attract customers. So the policy of port privatisation with competition also played a role in lifting Port Klang into a major international port.

For PTP, the competition with Singapore Port and also with Northport and Westport forces it to be equally aggressive in getting customers. While the government heavily supported both PTP and Port Klang it maintained a policy of letting them compete. Following the example of PTP and Port Klang, many of the other ports, such as Bintulu Port, Kota Kinabalu, Penang Port and Kuantan Port also harboured thoughts of becoming transshipment hub ports. However, the federal government has so far not made any overtures to support them to the level of Port Klang and PTP. There is a plan by Sabah to make Kota Kinabalu Port the load centre for East Malaysia but concrete support from the federal government is still wanting. Until another port receives the same kind of treatment that has been granted to Port Klang and PTP, the Malaysian government will continue to focus its resource more towards these two hub ports than the other ports. Expansion and upgrading works in the smaller ports are mostly undertaken to help them accommodate anticipated cargo growth in their hinterlands than to turn them into regional hubs of international standing (Lee and Kim, 2009). The case of Malaysia may give some suggestions to some countries which have the similar situation in port policy.

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