AN ASSESSMENT OF THE PENANG MARITIME SECTOR

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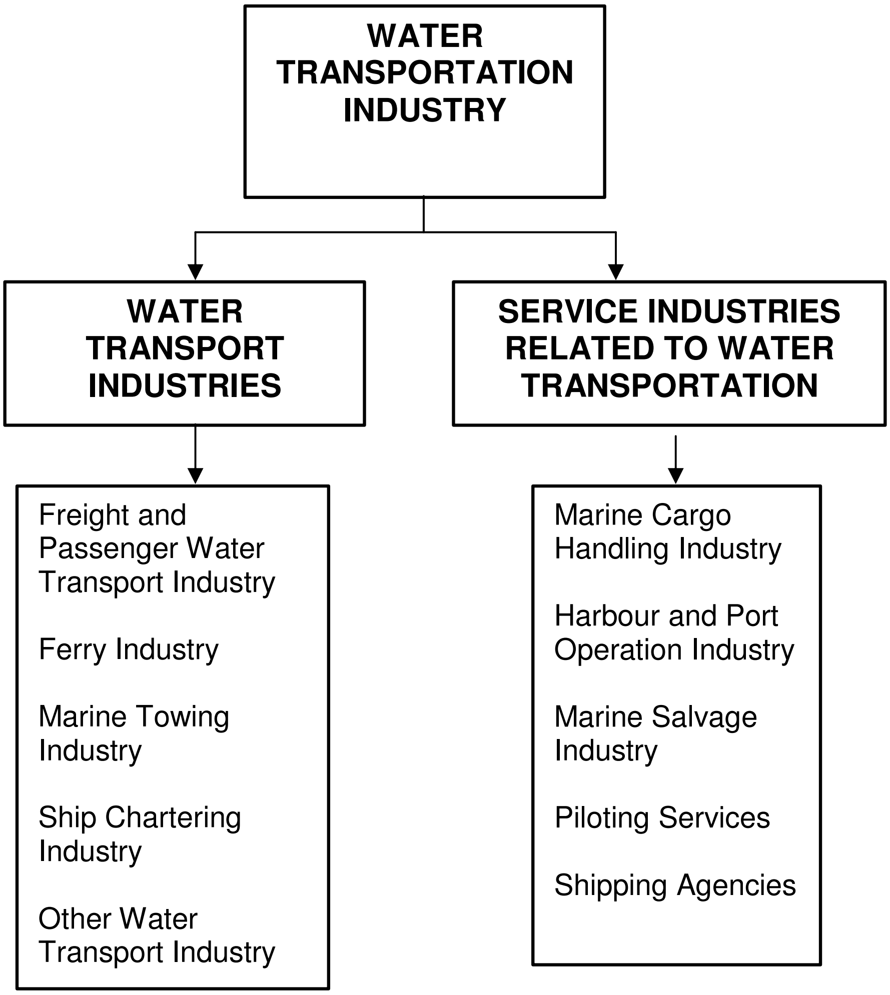
1. INTRODUCTION

Today "clusters" is a real buzzword for both the politicians and industry players. Cluster research applied to the economic development of a region is a process that rises and falls through the years just like all fashions. For the maritime industry and all other industries, the concept is clear, how can comparative advantage be achieved? How can an industry sector be developed into a center of excellence? How can money be made? Penang is not a major maritime cluster unlike the other sectors within the state but the maritime sector is secure in the knowledge that due to Penang's peripheral location and export niche, it requires the ongoing activities of ports and shipping to facilitate trade processes. If such services are required out of necessity then why can't Penang seize the opportunity to become a center of maritime excellence?

FIGURE 1: MARITIME ACTIVITIES IN PENANG



In general terms, maritime economic activities cover the production, distribution and consumption of goods and services involving the sea. The maritime sector has always been recognized as a critical sector that contributes significantly to the Penang economy. Being a littoral state, the economic activity of the within its boundaries is dependent to a large extent on its maritime resources and supporting industries such as fishing, coastal transportation, seafood processing and marine leisure. Its port and shipping sectors provide a backbone to her trade dominance and economic affluence.

Among the main activities linked to Penang's maritime economy sector are shown in figure 1 are as follows:

- Inshore and offshore fishing;
- Ocean and coastal shipping;
- Marine tourism and leisure;
- Ship building and repairing;
- Port services;
- Shipping services;
- Maritime auxiliary services i.e. banking, insurance, legal and consultancy services.

2. KEY CHALLENGES FACED BY THE MARITIME SECTOR IN PENANG

Within Penang and to a larger extent Malaysia, the maritime cluster has never had one overall body (such as a Chamber of Shipping) representing all elements of the maritime cluster. Instead, each element of the cluster has its own body and organizational arrangements. For example, one such body in the private sector, the Malaysian Ship Owners Association (MASA) caters to the private sector and the Association of Marine Industries of Malaysia (AMIM), opens its membership to almost all maritime industries in Malaysia. It is the largest and perhaps the most influential of the industry representative bodies in Malaysia. It would be relatively straightforward for the MASA and AMIM to become the overall private sector representative body but its members do not wish to take on this role as they fear that in doing so they would lose their original purpose. The concern of other representative bodies at the possible diminution of their authorities if one particular association be recognized as the representative body for the whole cluster require a "paradigm shift", both by the public and private entities.

Without an overall body helping to identify issues and research them or consolidate opinions for discussion and interaction with the State Government solutions tends to be piecemeal and less effective than it should be. The absence of this overall body makes it more difficult for the private sector to:

- Develop and articulate a comprehensive strategy for the cluster to preserve and improve Penang's standing.

- Raise the concern to the Federal Government to seek support for promoting the industries.

- Inform the State Government the contribution of the maritime linked activities to Gross Regional Product (GRP) of Penang.

- Attract appropriate caliber personnel into the industries to ensure their further development.

- Adopt and contribute to the development of KPI's and best practices in their structures, management and operations.

There is a need for the state authorities to design policies to provide such support as it reasonably can lead towards the achievement of a comprehensive maritime strategy adopted by this cluster. This process would be enhanced through partnership between the State representatives and maritime linked companies within the cluster. This should be done separately from the usual environment of the Malaysian Federal Ports and Maritime Board where the focus is principally on the port and logistics. Better understanding on maritime linked activities can be established. Policies can best be developed when the cluster and the State know the size, nature and contribution of the cluster to Penang. The lack of availability of discrete and comprehensive statistics for the maritime industries hinders the development of reliable profiles of each industry comprising the cluster and on their individual as well as collective needs.

One of the principal problems facing the cluster is to attract people of appropriate caliber to develop careers in the maritime industries. The problem arises from lack of effective promotion of the cluster within Penang to dispel the pre-conceived impression that the industries offer low status and inadequate rewards while a successful career requires many years at sea. The situation is compounded by the perceived lack of suitable alternative career paths within the cluster or any particular industry and the impression of almost no formal, modern management development being undertaken.

For some time, Penang has been unable to develop a sufficient number of its own seagoing cadet officers to meet its overall needs. The reasons for this situation include: lack of appeal of a seagoing career to almost all Penangites, levels of pay given to cadets (that, until very recently, have been considered too low compared to the levels of payout given in other economic sectors). Furthermore there are restrictions on the immigration of seafarers, cadets and others related to the industries. The crews of ocean going ships operating internationally are normally Filipinos and Indonesian’s.

Centres such as Singapore and Shanghai actively undertake international promotion campaigns to attract ship owners, managers and the related industries in the cluster to locate to their centers. They emphasize the edge they have over their competitors and the support from their national and local governments. Penang too has more attractive features than either centre but has failed to develop and implement a vigorous, coordinated, ongoing promotion exercise internationally. Its promotional efforts overall are haphazard but, when coordinated, can be very effective. The situation arises in part from the lack of an overall private sector representative body, and a clear strategy developed by the private sector compounded by inadequate liaison between the private sector and the State Government.

Some members of the cluster make reference to London and New York and their component industries. Such comparison is inevitable and useful but obscures the point that each centre is different because it has formed its own set of strengths (in place or with the potential to be developed) that, as a group, tend to be unique. London is home to the majority of the international bodies dealing with maritime affairs, it has the premier maritime insurance market internationally and its tax structure attracts leading Greek ship owners to have their headquarters there. No Asian maritime centre has replicated the situation where international bodies would want to establish their headquarters in that centres. The insurance market is unlikely to be attracted away from London regardless of tax incentives offered but opportunities to lure away some of the leading brokers and underwriters that are already operating extensively in Asia with many having branch offices based in Hong Kong and Singapore is always there.

Malaysia's tax regime is can be attractive but its structure and benefits are under promoted internationally. Its attractive features are marred by the lack of a sufficient number of double taxation agreements and other maritime focused taxation arrangements with other Governments trough multilateral trade. This is an area where both Singapore and Hong Kong have made far more progress than Malaysia. Malaysia has not shown the profile it wishes to have at the level of international maritime regulatory control. Penang could be one of the most active participants from Malaysia at the moment but to retain and strengthen its position as a leading voice in selected maritime matters a conscious decision would have to be made to commit the funds to invest in extensive, relevant research and lobbying.

The maritime centres that are most attractive internationally provide effective means of dispute resolution and other negotiations. Penang has a strong tradition in arbitration, mediation and use of a common law court system to resolve disputes since the 19th century. However on current maritime matters where, although it has a legal expertise that focuses on maritime matters, it lacks an admiralty court where the use for arbitration or mediation centres is fairly obsolete. Several international parties may prefer to arbitrate in Penang when Malaysia law can be used to enforce the matter of dispute. Penang has long experience of trading with other parts of Asia and internationally. Yet this tradition has not identified and promoted enough, nor has a sufficiently sustained attempt been made to attract maritime arbitrations and mediations to Penang.

Thriving, maritime centre tend to have a seamless structure of educational bodies focused on producing people trained to meet the needs of their maritime sector. The Federal Government must take the lead in putting these structures in place in consultation with the industries and the syllabi of the various bodies are kept under constant review. Penang certainly has dedicated educational bodies for meeting some but not all of the needs of its maritime industries. At the tertiary level only a few universities in Malaysia provide maritime courses but it is neither recognized nor promoted as a Malaysia maritime university and its maritime courses are being a trade-off for general logistics dominated courses.

3. Strategies to Promote Penang as an International Maritime Cluster

The keys to resolving the various issues are for:

- The cluster to initiate and develop a comprehensive, clearly articulated, long-term (10 years +) strategy for the cluster and its component parts where core attraction on attracting more ship owners and managers to Penang.
- The private sector players' ability to synergize the cluster and develop their own authoritative, overall representative body.
- The creation of a compact, high level body (e.g. the formation of a Maritime Industries Board [MIB]) dedicated solely to the maritime industries and composed of private sector and Government representatives.
- The MIB can take the role to review the strategy and to advise the Government on policies to support the strategies and to monitor the implementation of the strategy and policies.

MASA and AMIM needs to strengthen its finances, increase its resources and upgrade its offices purely to serve its existing members and mandate effectively. This strengthening is overdue and, if not carried out, is expected to result in a decline in membership and revenues. In addition to establishing both the MIB and one overall representative body for the private sector; it is first necessary to set up a 'Maritime Forum'. The Maritime Forum, must administered by these bodies and would enable all interested parties (both private and public sector) to meet on a periodic basis to discuss less formally issues affecting the maritime industries and its status as an international maritime centre. The Maritime Forum can facilitate a wide spectrum of participation on either general or specific issues.

The strengthening of Penang maritime sector for it own needs and internationally would be served by developing in the short term an a legal committee to focus exclusively on maritime matters. The legal procedures should be streamlined to reduce costs for parties using it. The establishment of such a consortium indicates the importance to Penang on maritime matters that provides more judicial depth rather than depending on foreign arbitrators for all maritime disputes. In addition, it offsets the advantages Singapore tries to claim by being the sole arbitrator in the region (excluding Hong Kong) by having established its own court with three judges. Furthermore, having an admiralty court in Penang would provide more choices regionally to potential litigants and drafters of contracts since theirs legal system is highly regarded.

In order for both the state and the private sector elements of the cluster to understand well the size, nature, contribution and quantitative human resource needs of the maritime industries operating in Penang, more comprehensive and discrete statistics need to be collected by maritime industry classification. They include:

- Revenue;
- Costs;
- Profits;
- Capital employed;
- Types and values of assets and where they are located;
- Employment – numbers, types, profile requirements, turnover, vacancies;
- Premises and equipment.

These statistics would be collected and collated by the state to preserve confidentiality. They would cover the different types of industry and require present information as well as future projections. Aggregated data by industry including contribution to GRP should be presented to the Government. It would be practical for the Government to work with the industries in the cluster in developing the format of information to be collected. International aspects of institutional matters include:

- Reassessment by the Government in conjunction with the private sector of its level of involvement with international and regional maritime organizations in support of the agreed strategy.

- Strengthening Penang's representation (both public and private sector) in the UK and Europe with specific attention given to its inter-relationship with relevant international institutions.

- Government and private sector agreeing on the suitable ways to lead and monitor the development of Penang maritime representative bodies that are important to the future growth of the maritime industries in Malaysia.

- Monitoring of institutional developments in Shanghai as the principal port and trade gateway in Mainland China.

- Coordinating actions to provide assistance when needed by Penang maritime industries in their development.

- The State Government working closely with the private sector to seek wider cooperation with its regional neighbours, e.g. Singapore and, where relevant, Shanghai to provide a more compelling inducement for additional maritime businesses based and operating outside Asia to set up regional operations in Asia.

3.1 IMPROVING INSTITUTIONAL FRAMEWORK

Administrative capability is part and parcel of the institutional framework. In Penang, much of the promotional activity is focused internationally with the intention of using it locally within the state. Key messages to be included in ongoing, planned promotion of Penang as a maritime centre (both to inform and attract) are:

Penang has a sound, legally protected business infrastructure and a soundly based economy; together they provide a financial, legal, service and communications centre for the South East Asian region.

The promotion of a Penang Shipping Register provides quality assurance by setting and enforcing high standards to the benefit of owners and the crews of their ships registered. The effectiveness of the messages regarding the Register will be enhanced by a sustained, successful campaign to persuade Malaysian and international ship owners to register more of their ships in Penang.

Penang could be the main financial bridge between the rest of the world for trading and shipping and promoting domestic enterprises in providing financial solutions and effective management of trading opportunities for ship owners and managers.

The quality of services available within the Penang maritime community can be of international standards and create a platform as a pre-eminent South East Asia service centre for maritime and other industries. There is a need also for the State and the private sector to provide induction assistance to maritime newcomers to the state and enable to enable them to settle quickly and effectively into the maritime cluster. The provision by Government of a well maintained and easily accessible maritime sector internet portal will assist this process and for those already operating within the cluster.

Building a partnership between the State and private sector can effectively enhance the promotion of Penang as an international maritime centre by consistently articulating in appropriate, international venues and foray's the concerns, opinions and recommendations of other maritime bodies. Penang would gain the double benefit of effectively be a part of the Asian maritime community on an informal basis and the effects of being seen as the country's maritime leader. Penang's representatives would need to make clear the importance of its involvement and undertake research with other renowned maritime associations. Highlighting the role research plays in making Penang as an international maritime cluster would further strengthen this promotional activity.

The attraction of Penang as an Asian maritime centre would be significantly improved by the conclusion of more taxation agreements with countries that are the key to the various elements of the state's maritime industry. The Ministry of Transport would need to give careful consideration to the advice of the private sector in setting the priority for concluding these agreements. This co-operation could best be coordinated by the MIB. It would be necessary to also review early the costs of ship leases and any allowances for purposes of profits tax in order to avoid loss of this type of business to Singapore, Hong Kong and other centres.

The effectiveness of the promotion strategy would be considerably enhanced by implementation of a plan to make Penang one of the major international centres for important maritime events. Penang would need to establish the events it will host for international, regional and local purposes then invest in ensuring they are successfully promoted and delivered. This programme would raise the profile of the maritime industries domestically and attract overseas visitors (industry participants, media reporters and tourists) who would gain first hand knowledge of the vibrancy of Penang as an international maritime centre.

3.2 ENHANCING PERSONNEL AND MARITIME RELATED EDUCATION

The purpose driving this element of the strategy is to ensure the cluster can attract and retain the caliber of management it needs to operate on the highest international standards and also be capable of setting some standards. There are only a small number of blue collar workers within the cluster while the increasing application of IT based systems to routine operational and administrative functions is requiring fewer but more multi-skilled people. Where functions are either not systematized or the systemization applied is relatively uncomplicated, jobs are being transferred to lower cost locations. The resulting, overall trend is an increase in the number of managerial and semi-managerial positions with a continuing tightening in the ratio of management to non-management staff. The specific actions recommended to achieve this aspect of the overall strategy are to:

- Establish jointly and also fund a Maritime Training Trust to provide partial funding for training to all industries in the maritime cluster according to their needs – the focus would be expected to be on ship owning and ship management companies training seagoing officer cadets and provide high priority to crew of Malaysian origin. Consider jointly and, if justified, implement a small levy on all members of industries in the maritime cluster to fund the Maritime Training Trust

- Develop and implement a plan for sharing, if needed, the training costs of seagoing cadet officers between ship owners and ship managers and the Government.

- Review (by MASA, AMIM and the Marine Department) the number of seagoing cadets needed annually to meet Malaysia's and specifically Penang's demand on the expectation that, although the state's own demand is expected to outstrip its supply. Increasingly their trainees are coming from the domestic labor market where there is no tradition or reservoir of knowledge of seafaring.

- Clarify immigration policies and procedures to provide for speedier processing of visa applications and for the admission of Malaysian technicians and professionals with qualifications or experience relevant to the needs of the cluster.

- Create a maritime education body to oversee and direct all maritime educational bodies such as the formation of a Seamen's Training Centre, the Single Maritime training Institute and the local universities to provide seamless progression and to utilize resources to optimal efficiency.

Designate certain Malaysian universities as a Maritime educational entity and:

a. Ensure its syllabus provides necessary coverage on all courses required by the cluster at the tertiary education level excepting for law and courses provided by the training centre.

b. Increase the number of shipping management courses available.

c. Increase the number of shipping finance courses available and strengthen links with banks providing shipping finance.

d. Enhance co-operation with tertiary level academic institutions world-wide for mutual reciprocity including transfer of knowledge and best practice.

e. Strengthen links with industry in course identification, design and increasing the number of maritime legal courses available in Malaysian universities and further strengthening links between them and legal firms practicing maritime law.

The implementation of the proposed strategy would result in the further development of Penang as an international maritime centre. This result would have the effect of raising the contribution of the cluster towards the state's GRP far exceeding the modest annual costs involved. In addition, higher level management and relevant support jobs would be created thus assisting Penang to achieve its policy of moving overall up the value chain to becoming a high value-added service centre.

4. CONCLUSION

The economic impact of the maritime cluster in Penang is significant. The cluster influences society and the state of the economy. The maritime cluster reaches into several fields of business and is a working unit where different fields such as seafaring, marine industries and port operations interact with one another directly through their company networks. The maritime cluster companies in Penang feel strongly that it is important to further develop this network.

Maritime cluster companies bring income from international markets, which in turn add to the welfare of society in Penang and because of the geographical location, maritime transportation is vital to the state's economy. Maritime transport is by far the most important form of transport for Penang's exports. The functioning and development of maritime transportation and ports is essential for the competitiveness of the state's export oriented sectors. Penang ports and maritime companies are important links in this supply chain. They contribute efficient and valuable transport services and form a constantly developing operational environment. A high level of technology and innovation is a major characteristic of large maritime cluster companies. This generates substantial growth potential within their company networks.

The Penang maritime cluster has created important business for insurance companies, finance companies, classification societies among others. The life of these companies depends on the maritime cluster if their core fields remain strong enough. The improvement of the maritime trade image is very important for the development of the whole maritime cluster. The conservation of top quality know-how in Penang requires a constant and secure supply of labor and because different sectors of the maritime cluster form an inter-linked unit with its own special features and attributes, the maritime cluster should be seen as a whole in public decision-making. ***Ψ Nawin Rajah***

Why Malaysia Needs Broadband and Doesn't Have It?

Opinion Piece by

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According to the Malaysian Communications And Multimedia Commission (MCMC) website, in 2006 broadband penetration in Malaysia reached just 2.8 per cent of the population, falling far short of the modest target of 5%. For a middle income country according to international tables Malaysia is falling behind in the development of a broadband infrastructure. Why is this important? So many of the economic and social goals of Vision 2020 and the five-year plans depend upon all citizens having affordable access to the most modern of information systems, the Internet and the World Wide Web. Indeed, much of the vision of the Multimedia Super Corridor is built upon Malaysia being able to foster the growth of skills, employment and industries associated with these technologies, whether or not it is equipment and gadgets to support the information infrastructure or software support systems or content and service applications.

Why is broadband so important to Malaysia's efforts? The answer is simple. As more bandwidth becomes available to the developers of content and applications around the world, the richer the media becomes. Streaming video (for example, IPTV) or downloading music and movies, exchanging commercial documents, using applications like Google Earth and search engines, multiplayer gaming, and so on all rely upon the availability of bandwidth. Dial-up Internet connections just cannot cope. Ten years ago few companies, let alone consumers, used 64 Kbps connections. Some really advanced larger companies subscribed to the telecommunications broadband standard B-ISDN (Integrated Services Digital Network) at a thrilling 144 Kbps. By 2000 parts of the world were getting used to DSL (digital subscriber line) technology that offers 1.5 Mbps to the home over the twisted copper wire pair of the old public switched telephone network (PSTN). By 2007 DSL can deliver 8 Mbps, 10 Mbps and more. Using 'Metro-Ethernet' technology (that derives from the IT rather than the telecoms world) telecom companies, for example in Hong Kong, are now offering 50 Mbps, 100 Mbps and even 200 Mbps. In Japan and Korea, fibre to the home is offering similar speeds and this year Singapore is tendering for fibre to every home by 2015. Broadband penetration covers over 60 per cent and in some cases over 70 per cent of all households in these economies.

The lack of broadband coverage in Malaysia is becoming a serious problem and represents a major failure of the telecoms sector to support other aspects of Malaysia's economic and social development policy. Why is this so and what can be done about it? The following paragraphs attempt to answer these two questions.

The Problem

In all cases where broadband has been successfully deployed, either the state has subsidized or inveigled upon the dominant carrier to build the broadband network, and/or has opened the market to competition. Competition is the more powerful solution because self-interest compels carriers to build the network to win customers and the process is usually more efficiently carried out because the commercial interests of the carriers ensures they choose the most cost-effective technologies and deploy them in a manner that sooner rather than later earns them cashflow from which they can finance further deployments. Without competition, the decision-making process is more bureaucratic and, worse, open to abuse by awarding contracts to third parties favoured by politicians. Of course, competition does not guarantee against abuse but at least for publicly listed companies extraordinary costs will show up somehow and somewhere in the accounts sooner or later.

So how does this apply to Malaysia? In theory Malaysia has an open and competitive market, and in some areas, such as mobile cellular telephony this is true. But it is certainly not true in the fixed broadband network where Telekom Malaysia is not only dominant, it controls almost all the customer access network (the 'local loop') and competitors like Maxis and Digi long ago gave up trying to compete. This gives TM an enormous strategic strength which cannot be easily reversed without splitting up the company, for example into wholesale and retail services rather like BT (British Telecom) has done voluntarily in the UK to avoid a worse fate at the hands of the regulator. As Hilaire Belloc's old rhyme goes, 'hold on to the hand of nurse for fearing of meeting something worse!' But in Malaysia there is a major impediment to any restructuring of Telekom Malaysia, namely that it is majority owned by the government and it seems there is no way the Ministry of Finance will risk the loss of revenue or share value.

The root problem stems from what is widely known as 'managed competition' in Malaysia. 'Managed competition' is like 'squaring a circle' or, to use another metaphor, is a 'curate's egg' of an issue. Remember squaring a circle is not possible, and an egg that is 'good in parts' is a contradiction in terms. Likewise, competition can only be 'managed' if competition itself is restricted so there are areas of no competition. How rotten does an egg have to be before it becomes inedible? How managed does competition become before it destroys competition? And who manages it? In Malaysia it seems that it is not the regulator, the MCMC, who is logically in the best position to understand the industry. As Lee (2002) points out with regard to anti-competitive practices and the Malaysian Communications and Multimedia Commission's 2000 Guidelines, it is 're-emphasized in the guidelines that judgment as to whether conduct is anti-competitive or not, is within the jurisdiction of the Minister, and not the CMC. The CMC's role is confined to enforcement of judgments made by the Minister.[1]

The problem of over-ruling the MCMC's recommendations and regulation with ministerial judgments is that the short term interests of the powerful stakeholders within government are likely to take precedence of what is good for the industry and the industry's ability to support the long term goals of Malaysia's Vision 2020. A sad example of this seems to have arisen precisely over the issue of broadband deployment. In 2006 the MCMC drew up an Access List of services and facilities that TM should be required to open to competitors to allow them access to customers. The list included making available local lines for upgrade to broadband by competitors who would lease the line from TM, install their own equipment known as DSLAMS (digital subscriber line access modules) in TM's exchanges, a process known as 'co-location', and provide a broadband service to customers who had requested it. In regulatory terms this is known as 'unbundling the local loop' and in this case it was the higher frequencies that were to be unbundled to provide the speeds required of broadband. According to press reports, the Ministry over-ruled the MCMC, so little or no progress seems to be likely on the broadband front.

It should be explained that no incumbent welcomes unbundling, which appears to benefit competitors who have not invested their own capital in building a local network. Ideally, policies should provide an incentive to new entrants to build their own access networks so customers have a choice, although too much duplication may be a strain on national resources so even this policy needs to be carefully considered. But from an operational point of view, owning and operating a network results in various commercial and marketing advantages. For example, if network A is more 'intelligent' than a competitor's network B, then network A may be able to offer customers a better range or quality of services. But in Malaysia, the stranglehold of TM is just too great for this process to kick-start, and there is no competing cable TV network to offer broadband.

1 Cassey Lee (2002) 'The Institutional and Policy Framework for Regulation and Competition in Malaysia', paper delivered to the CRC International Workshop, University of Manchester, 4th-6th September 2002, Faculty of Economics & Admini stration, University of Malaysia, p.7 The MCMC's Guidelines refer to Guideline on Substantial Lessening of Competition, Discussion Paper N.RG/SLC/1/00 (1) and Guideline on Dominant Position in a Communications Market, Discussion Paper No. RG/DP/100 (1).

The Solution

What is the solution? It is very clear and has been recommended by numerous specialist and expert consultants. The answer is to do what Hong Kong did very successfully. First, TM should be required to unbundle. Second, the MCMC should compel TM to negotiate a fair (non anti-competitive) leasing fee and should implement unbundling in a timely manner, with the MCMC reserving the right to intervene if necessary. Third, a phase-in and a phase-out timetable should be outlined, so that competitors know that they have just so many years to take advantage of these arrangements. After, say, 8 years they must have their own networks built to those customers or renegotiate the terms of the leasing without any intervention from the MCMC. Such a policy balances the interests of both TM and its competitors, but most of all serves the interests of customers who want broadband and the aims of Vision 2020.

Objections from TM that this will take away an incentive for them to invest in DSL technologies must be dismissed as crying wolf. TM has known about these issues for many years, and has failed to invest appropriately. If TM refuses to invest in DSL, then one option is to award a district to a competitor or a consortium of competitors and require TM to lease lines from them for the period of the policy. A much better approach is through the MCMC's forums whereby the industry can agree a common approach for the benefit of Malaysia. Malaysia needs to 'get online'.

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