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International Freight Logistics in South-East Asia

The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT)

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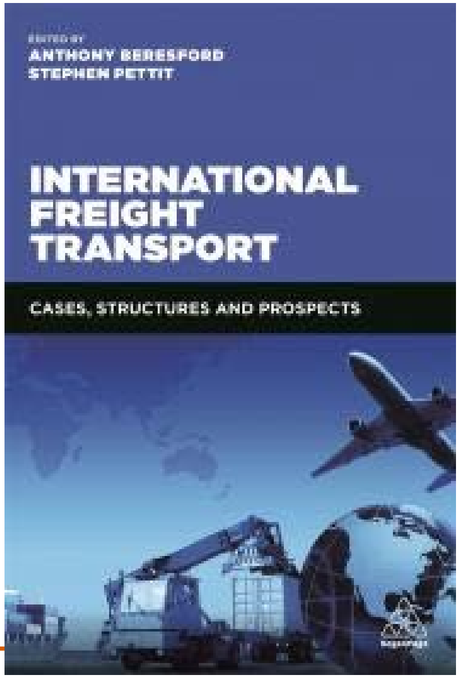
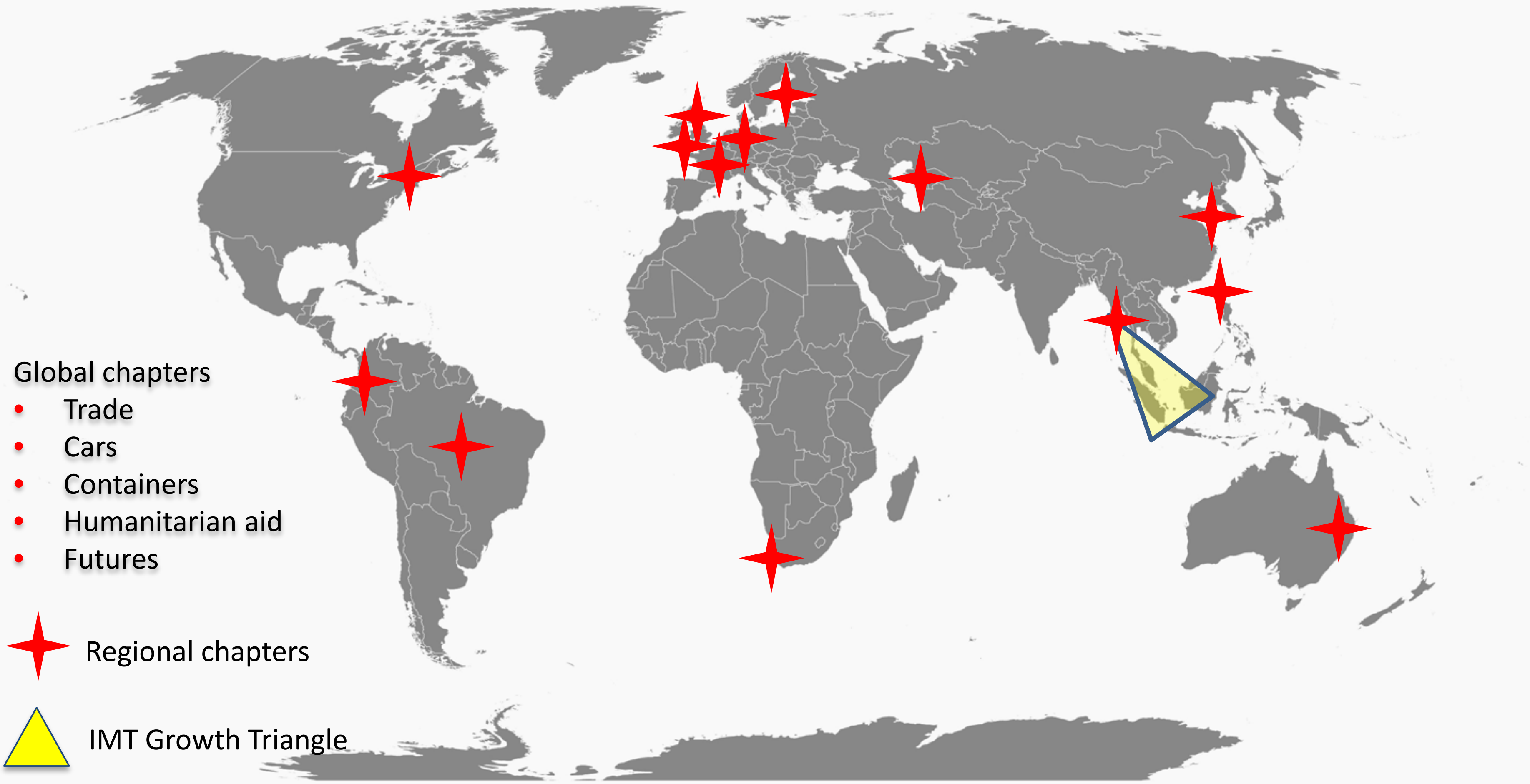
Presentation summarised from:

- International Freight Logistics in South-East Asia : The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT)
- Chapter 7 in International Freight Transport
- Beresford and Pettit, 2017 (Editors)
- Kogan Page



International Freight Transport



Outline

- IMT-GT Corridors and Trade Flows
- Analytical Framework
- Initial Findings
- Freight Logistics Corridor Analysis
- Conclusions

The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT)

- IMT-GT is a sub-regional co-operation initiative running since 1993
- Aimed at economic growth from co-operation and trade
- Particular states / provinces:
  - 14 southern Thailand
  - 8 states of Malaysian peninsula
  - 10 provinces of Sumatra / Indonesia
- Over 70 million people

Source: Lloyds Maritime Atlas 2015

IMT-GT Corridors

- Extended Songkhla - Penang - Medan Economic Corridor
- Straits of Melaka Economic Corridor
- Banda Aceh - Medan - Pekanbaru - Palembang Economic Corridor
- Melaka - Phuket - Banda Aceh Economic Corridor
- Ranong - Phuket - Banda Aceh Economic Corridor

- For corridors to be successful as drivers of economic development, freight logistics capabilities need to be enhanced

IMT-GT Corridors

- Physical infrastructure improvements required, some are underway
- Transport logistics operators need favourable conditions in which to operate
- Communication systems must be robust, transferrable, global and secure
- Trading basis must be competitive with efficient use of resources, capacity and capabilities

IMT-GT Trade Flows

- Accurate and complete picture of origins and destinations for freight flows not possible
- Mix of operators` views and statistics needed
- Field knowledge of local authorities, data-collection protocols, and clarity / accuracy regarding use of value, volume, weight, number of units important

Trade Flows: Thailand - Malaysia

- Thai exports: mainly agricultural
- Malaysian exports: mainly industrial
- Imbalance especially on certain corridors e.g. in value terms, but not necessarily by weight; also vice-versa
- Within ASEAN, Malaysia is second biggest partner for Thailand, after Singapore…. and cross-border trade is Thailand's highest

Trade Flows: Malaysia – Indonesia (Sumatra)

- Malaysia is top ASEAN exporter into Sumatra, but is not top destination for Sumatra’s exports
- Sumatra’s biggest markets are China, other Far-east nations and USA
- Malaysian general mixed cargo to Sumatra; Sumatra’s exports are mineral fuels, oil products, chemicals, fertilisers

Trade Flows: Thailand– Indonesia (Sumatra)

- Very low volumes
- Some fertilisers, but routeing not well-recorded
- Destinations of consignments especially unclear
- Could be an opportunity to expand trade on basis that:
  - Thai products are in demand in Sumatra
  - Southern Thailand needs Sumatran fuels and fertilisers

Trade Flows

- Use of third country for transit is common
- Use of regional hub and spoke systems also common:
  - Routeing via hub ports
  - Could offer potential for economic hubs as well as transport hubs

Analytical Framework

- Novel methodology
  - first: describe current freight logistics situation – ‘as is’
  - second: build several outcomes driven by market and /or policy – ‘to be’ situation
  - third: use scorecard system with four macro-logistics components
    - infrastructure
    - institutional framework
    - service providers
    - traders

Analytical Framework

- Build up capability picture from range of KPIs for each of the 5 economic corridors in sub-region
- Overall logistics infrastructure of IMT-GT is adequate
- Some bottlenecks
- Some areas need harmonising

Initial Findings

- Overall ‘institutional framework’ is still immature
- Wide variation in import and export costs between the three countries
- Documentation is disproportionately expensive
- Cumbersome and complicated procedures in several areas
- Physical loading / unloading / goods transfer and border crossings variable in performance

Initial Findings

- Key areas:
  - time for physical transport / transfer versus documentation preparation and clearance
  - import versus export procedures
  - exports encouraged / facilitated
  - imports often subject to delay

Initial Findings

- Logistics dominated by small / medium sized companies
- Flexible, localised, knowledgeable
- But additional benefits possible from greater liberalisation allowing more market entrants
- Opportunities for foreign / global LSPs

Freight Logistics Corridor Analysis

Songkhla – Penang – Medan

- Very important for Thai exporters
- Biggest complaints: expensive fuel, especially compared to prices in Malaysia
- Also: Thai trucks forbidden to fill up in Malaysia
- Border crossing delays
- Imbalance of flows
- Road access into / out of Belawan is overloaded and in poor condition
- Impact of Singapore as a dominant regional hub: skews traffic / transport flows
- Very large mix of vessel types

Freight Logistics Corridor Analysis

Songkhla – Penang – Medan

- Cost of maritime transport on some routes less than import processing cost
- On average border crossing ~ 23% of cost, physical transport ~ 67%
- Overall, on the Songkhla – Penang – Medan corridor, two levels of integration visible:
  - Songkhla – Penang links well developed
  - Penang – Medan links are more traditional
  - Penang - Belewan weakest links: physical infrastructure

Freight Logistics Corridor Analysis

Trang – Satun – Perlis – Penang – Port Klang - Malacca

- Cross-border trade and investment – southern Thailand / Malaysia traditionally strong especially agricultural products
- Malaysian government focusing on irrigation, utilities, transport
- Fuel price differentials Malysia / Thailand distort trucking market
- Weakest link probably Kantang – Penenay sea link: could be more frequent, efficient

Freight Logistics Corridor Analysis

Aceh – Medan – Dumai – Jambi - Palembang

- The only fully domestic corridor (Indonesia) in the IMT – GT
- Data obtained for costs, times from local freight wardens
- Variable performance, especially by commodity
- Infrastructure weaknesses e.g. no rail connections and poor roads in parts

Freight Logistics Corridor Analysis

Ranong – Phuket - Aceh

- Newest corridor in IMT – GT
- No direct movements end – to – end, but some interest by private operators in providing Phuket – Aceh link
- Truck operations link Ranong and Phuket …. Costly and inefficient
- Sabang earmarked for deep-sea operations, so Lhokseumawe could operate as replacement regional freight port

Conclusions

- Freight logistics concepts relatively new
- Corridor performance dependent on both hard (infrastructure etc.) and soft (business relationships) components
- Some corridors heavily used and mature, though congested in parts
- Others little-used with potential for growth in particular cargo trades
- Relaxation of some trading and transport rules needed
- Quotas e.g. on food trades may need reviewing

Conclusions

- Greater integration of Sumatra would boost Malaysia – Indonesia trades
- Coordinated investment between the 3 countries desirable
- Greater harmonisation of border and transit procedure required
- Overall, administration, customs etc. costs higher than they could be
- Greater use of the ASEAN Economic Community (AEC) should form basis of ‘freight corridors’ to attract investment and spin-off activities

Related Research

Bahana Wiradanti, ST, MT, MSc

3rd year PhD Candidate in Cardiff University,
Sponsored by PT Pelabuhan Indonesia II (IPC)

- PhD Topic: Container hub port development in a peripheral location: Case study of Indonesia's Eastern region.
- Supervisors: Stephen Pettit, Andrew Potter, Wessam Abouarghoub

  Critical Friend: Anthony Beresford

- Current progress:
  - Preliminary interviews - 13 respondents
  - Main interviews - 48 respondents
  - Questionnaire survey (planned) 150 respondents

  Respondents from Port Operators, Shipping Lines, Cargo Owners, Logistics Companies, Central Government, Local Government and Funding Sources

- Presenting at International Association of Maritime Economics (IAME) June 2017, Kyoto, Japan:
  - Peripherality in ports: A literature review on concentration-deconcentration factors.

Thank You