

Market Overview:

Freight Transport in Malaysia (Sep 2017)

Road freight will remain by far the most used freight mode in Malaysia, although there will be significant investment in the rail sector over the medium term and beyond as the Malaysian government looks to improve connectivity and enhance the potential of this mode. Rail will be the outperformer, benefiting from increasing domestic demand for construction materials and regional demand for agricultural products. Air freight has fewer growth opportunities than the other two modes due to market maturity and the physical and financial constraints of carrying cargo by air.

Malaysia's overall trade outlook for 2017 is looking fairly bright, according to International Trade and Industry Minister Datuk Seri Mustapa Mohamed, who has stated that 5% y-o-y growth has been pencilled in. It was reported in June 2017 that the country's exports had been performing 'extraordinarily' well, increasing by an impressive 23.6% between January and April 2017. For export, our achievement in four months was very encouraging. 23.6 percent in total trade increment, and truthfully, every month, from the first to the fourth, it was very good. Quite extraordinary, exceeding 20 percent.

Growing trade between Malaysia and India is very much on the agenda for both governments, with the prime ministers of both countries expressing their wishes to take bilateral trade to RM66 billion, according to SME Times in March 2017. In a statement made by the India-Malaysia CEO's Forum, the timeframe for this aim was set as the immediate future. The total investments from Malaysia stood at around RM30.8 billion or more as against total investments of around RM11 billion from the Indian side.

Malaysia will see steady air freight growth between 2017 and 2021. This is due to a mature and well developed air freight sector and a well-developed airport infrastructure. It will be slow but steady mostly because of a strengthening in the volume of consumer electronics cargos and an expansion in routes regionally and internationally. However, the share of the freight mix will steadily and slowly decrease over the next few years, until the end of the decade, as rail takes over more of the share. Road freight will increase in terms of volume until 2020, due to improving employment and increasing incomes supporting demand for consumer goods, but will see a decrease in the percentage of the overall freight mix, mainly because rail freight will have become more established both in terms of infrastructure and trade.

Rail freight will increase its percentage of the overall freight volume. The improvement of national and trans-regional connectivity in conjunction with rising agricultural exports and agricultural import growth means there will be a high demand for rail freight services.

In terms of the trade outlook for Malaysia, diversification of trade is a top priority for the Malaysian government in the short term, with Iran and Sri Lanka being touted as heading the list of partners, according to New Strait Times in January 2017. New bilateral trade agreements are being mooted after the delay that has engulfed the TPP, which would benefit the freight industry. Indeed, the TPP has been resurrected by the Japanese government as it looks to continue without the US.

There was a marginal gain of 0.2% y-o-y in Malaysia's bilateral trade with the Organisation of Islamic Cooperation (OIC) countries to MYR145.18 billion in 2016. Of the OIC countries, some 70% of Malaysia exports were sent to Indonesia, the UAE, Turkey, Bangladesh and Pakistan. International Trade and Industry Deputy Minister Datuk Ahmad Maslan said: The trade balance also registered a good performance in rising 67% to RM19.0 billion in 2016 compared to RM11.4 billion the previous year.

President Donald Trump has caused concern among various countries with his protectionist assertions. Malaysia is one country that could be affected, given that the US is Malaysia's fourth most import trade partner. International Trade and Industry Minister II Datuk Seri Ong Ka Chuan has stated that Malaysia is not responsible for the US's trade deficit.

On the upside, India could become a stronger trade partner over the coming years as both countries have put an onus on growing trade links. The prime ministers of both countries have expressed their intention to take bilateral trade to RM66 billion, according to SME Times.

Road Freight

Road freight continues to be the largest freight mode in 2017, accounting for 97.5% of all freight. Road freight plays a major role in a supply chain including air or rail freight, with trucking operators benefiting from the country's extensive and well-developed network of roads. Consumer demand is the key driver for road freight volumes and, with lower oil prices, consumer demand has remained relatively high, although the growth rates are dropping slightly because of a decrease in demand for luxury consumer items.

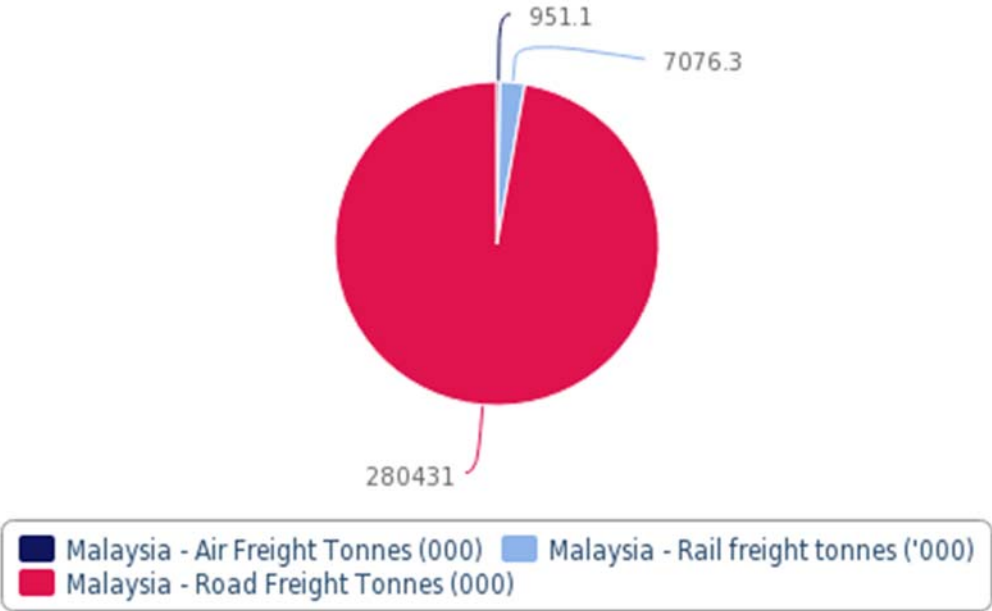
One potentially key development for the Malaysian road freight sector was the news that Singapore-based start-up **Ezyhaul**, which was launched in Malaysia in April 2016, could spur a trend for Uber-esque, on-demand trucking. The Apps' focus is on trucking, from vans to small trucks, all the way to the 40-footers that do the long-haul. The key problem they are solving is around empty capacity on the roads and empty backhauls. It is prevalent across the region. Approximately 65-70% of South-East Asian return loads are empty, which underlines a key opportunity due to empty capacity being underutilized.

Rail Freight

Rail freight is Malaysia's second largest freight mode, catering for 2.2% of the total freight mix in 2017. Due to the large production and export of commodities such as ores and processed steel products, Malaysia's rail network caters for a large volume of goods. In addition, the steady domestic and international demand for Malaysia's agricultural products keeps rail freight demand elevated. Rail freight also benefits from inter-regional trade and high quality infrastructure domestically and regionally, which is also the result of the country's integral role in regional and global supply chains. However, the percentage of rail freight is much lower than road freight also because of limited rail connectivity in Eastern Malaysia. With less than 150km of tracks, the supply chains in the region are reliant on other freight modes, such as road freight. Rail appears to be the freight mode of choice for the foreseeable future as state railway operator.

Rail Makes Marginal Gains

Malaysia Freight Mode Breakdown, 2017 ('000 tonnes)



Source: BMI Research