

Laws and Regulations in the Logistics Sector in Malaysia

Highlights

Laws and regulations are key instruments to achieve public-policy objectives, such as consumer protection and public health. When they restrict market forces more than necessary or impose unnecessary costs, a comprehensive competition review can help identify restraints and develop alternative, less restrictive policies that still achieve government objectives. More intense competition is linked to increased productivity, growth and other benefits, including lower consumer prices, greater consumer choice, better quality of products and services, and faster adoption of innovation.

The OECD was tasked by the ASEAN Secretariat and the ten ASEAN member states to carry out an independent competition assessment to identify rules and regulations that may hinder the efficient functioning of markets in the logistics sector. The project was supported by the ASEAN Economic Reform Programme under the UK Foreign, Commonwealth & Development Office (UK Government). This assessment covered the following activities:

- Freight transport (by road, railway and water)
- Freight forwarding
- Warehousing
- Small package delivery services
- Value-added services

This booklet presents the key findings and highlights from this analysis on Malaysia. The full results of the analysis are available at oe.cd/comp-asean.

The assessment took place in stages. In **Stage 1**, the OECD undertook a fact-finding mission in Malaysia and prioritised 31 pieces of sector-relevant legislation. **Stage 2** screened this legislation using the OECD's Competition Assessment Toolkit and identified potential barriers. **Stage 3** involved an in-depth analysis of the potential barriers, including assessing the possible competitive harm resulting from these barriers and taking the objectives of policy makers into account. **Stage 4** developed 63 recommendations for provisions found to restrict competition unnecessarily, taking into account the Malaysian context, international experience and relevant economic literature, and consulted the relevant authorities on these recommendations. **Stage 5** finalised the recommendations. The final report including all findings and recommendations was released and uploaded on the OECD website.

Sector	Legislation analysed	Restrictions found	Recommendations
Road freight transport	12	22	20
Maritime freight transport and ports	3	20	17
Freight forwarding and multimodal transport	4	12	8
Warehouses	3	9	8
Small package delivery services	2	9	7
International agreements	3	3	3
Horizontal	4	1	0
Total	31	76	63

Key findings and main recommendations

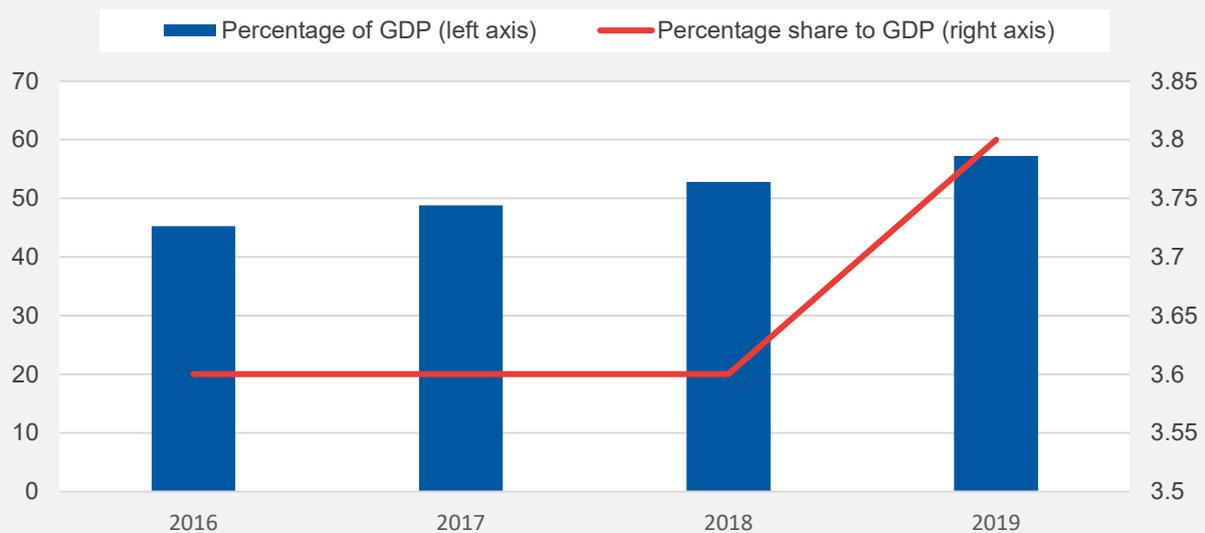
In 2019, the transport and storage sector accounted for 3.8% of GDP in Malaysia with gross value added (GVA) estimated at MYR 57.2 billion. The sector employed 667 600 people, representing around 4.4% of the employed population in 2019.

In 2018, Malaysia ranked 41 out of 160 countries in the World Bank's Logistics Performance Index (LPI), ranking fourth within ASEAN, behind Singapore, Thailand and Viet Nam. This was a drop from a ranking of 25 in 2014 and 32 in 2016 when it was the second best performing ASEAN country after Singapore. According to the LPI, Malaysia performs well on international shipments, while timeliness is the most challenging area. In addition, according to the Global Competitiveness Report, Malaysia scores well in terms of quality of transport infrastructure, ranking 29 out of 141 countries.

The Malaysian government has classified logistics as a priority industry and there are several government initiatives in the sector, including the Third Industrial Masterplan (IMP3) for 2006-2020, the Logistics and Trade Facilitation Masterplan (2015-2020) and the National Transport Policy 2019-2030.

Similar to other ASEAN member states, Malaysia is suffering from the socio-economic impact of the COVID-19 outbreak. The pandemic has resulted in the disruption of supply chains and limited the flows of trade and investment. Logistics companies have been impacted by operational constraints (delivery delays, congestion and higher freight rates) and a lower demand in certain sectors.

Value of transport and storage sectors (MYR billion) as a percentage of GDP



Road freight transport

In 2019, land transport represented 25% of total sector GVA. Small and Medium Enterprises and independent truckers represented around 70% of the Malaysian trucking industry. In terms of road infrastructure, Malaysia's road network more than tripled between 2000 and 2019. According to the Global Competitiveness Report, Malaysia ranks 19 out of 141 countries for quality of road infrastructure.

Key recommendations

1. **Remove the authorities' power to set freight rates**, in line with current practice where rates are determined by the market, to ensure price competition.
2. **Remove unnecessary criteria** considered by the authority in renewing a commercial vehicle operation licence, such as business viability.
3. **Create a single licence for the carriage of both general cargo and containers**, so that operators can acquire a single licence for a single vehicle and operate more efficiently. This will reduce costs and facilitate entry in the market.

Maritime freight transport

In 2019, water transport represented 12% of total sector GVA. Malaysia ranks well in terms of maritime transport infrastructure. Malaysia's liner-shipping connections with other countries have significantly improved since 2006, passing from 64.6 out of 100 in 2006 to 93.8 in 2019. According to the World Economic Forum's Global Competitiveness Report, Malaysia ranks 5 out of 141 countries for liner shipping connectivity. Its seaport services are ranked 19 out of 141 countries in terms of efficiency. Malaysia has a developed port sector, with two of its ports, Port Klang and the Port of Tanjung Pelepas ranking 12 and 18 worldwide in terms of throughput. The ports rank 2 and 3 in the ASEAN region, after the Port of Singapore. In addition, the number of merchant vessels registered under the Malaysian flag has been increasing since 2011, when Malaysia recorded 1 405 vessels, reaching 1 748 vessels in 2019.

Key recommendations

1. **Introduce clear requirements** for applicants requesting a licence for maritime transport to reduce costs and facilitate market entry.
2. **Assess whether there is private interest in providing pilotage services**. If so, create an appropriate legal framework so that piloting services can be tendered on fair and non-discriminatory terms to guarantee competition for the market. All pilots would need to have local knowledge and fulfil quality standards to guarantee safety.

Other logistics sectors

The Malaysian freight forwarding market is fragmented. There are approximately 3 000 service providers that hold customs brokerage licences, around half of which are members of The Federation of Malaysian Freight Forwarders (FMFF). There is no national legal framework for general purpose warehouses. The Courier, Express and Parcel market recorded a total revenue of USD 1.4 billion in 2019. It is expected reach in USD 3.2 billion by 2025, recording a growth rate of 14.4% (2009-2025). In 2019, Malaysia's revenue share represented 17.8% of the ASEAN market.

USD 3.2 billion

By 2025

Key recommendations

1. **Issue new licences for customs brokers to allow new entrants.**
2. **Revise the requirements for obtaining a licence for bonded warehouses**, including requisites for minimum space and minimum value. This may encourage market entry.
3. **Ensure that courier service providers are not subject to price regulation** to encourage price competition.

International agreements

The Logistics and Trade Facilitation Masterplan (2015-2020) is overseen by the National Logistics Taskforce and sets out five key strategies and 21 action items, with the vision for Malaysia to become “the preferred logistics gateway to Asia”. Malaysia is party to several ASEAN agreements related to logistics. Since 2009, Malaysia has facilitated trade through its National Single Window for imports and exports.

Key recommendations

1. **Implement the ASEAN Framework Agreement on Multimodal Transport** in national legislation, which would decrease costs for operators and increase their ability to provide services across ASEAN Member States, enabling the geographic flow of goods and services.
2. **Facilitate the cross-border flow of freight**, for instance, by reviewing the requirements for trucks to unload and load and the ban on Indonesian trucks circulating outside ports at the border, increasing efficiency.

Sources: Department of Statistics Malaysia; Mordor Intelligence; UNCTAD; World Economic Forum; World Bank.

Fostering Competition in ASEAN

Funded by the ASEAN Economic Reform Programme under the UK Foreign, Commonwealth & Development Office (UK Government), **Fostering competition in ASEAN** is a project that aims at assessing regulatory constraints on competition in the logistics sector in all 10 ASEAN member states identifying regulations that hinder the efficient functioning of markets and creating a non-level playing field for business.

The project runs two parallel components: **competition assessment reviews** of specific logistics sub-sectors and **competitive neutrality reviews** of small-package delivery services.

This report and the accompanying “OECD Competitive Neutrality Reviews: Small-Package Delivery Services in Malaysia” are contributions to the implementation of the ASEAN Competition Action Plan.



Access all reviews and more information on this project at oe.cd/comp-asean