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During the past two decades, against a background of growing globalization, world GDP increased by 73% in real terms. Over the same period, world **seaborne trade increased by 112%**, with the value of world trade carried by sea today accounting for 90% of the total, according to the IMO. **The shipping industry has been one of the major factors determining the pace of globalization.**

Operational and technological developments in the industry, which have dramatically reduced transportation costs, have been a **major driver** of market integration and the growth of international trade:

(a) **International containerized trade** has trebled since 1995, prompting some analysts to argue that **containerization** has been **more important** for globalization **than freer trade**.

(b) At the same time, the shipping industry has also been hugely influenced by growing **international trade and market integration**. The **shifting balance of economic power** as the advanced economies' share of world GDP dropped from 80% to 60%, and that of developing economies grew from 20% to 40%, has also left its mark on the shipping industry.

In the 1970s and 80s, developing economies mainly exported raw materials and imported high-value but low-volume manufactured goods. Today, developing economies are part of a globalized production network, importing raw materials and exporting an **increasing share of finished products**.

Maritime trade is today part of this globalized production network, involving:

- (i) more trade in intermediate goods,
- (ii) more intra-company trade, and
- (iii) more door-to-door services.

Against the background of this **thriving market**, the world fleet grew in terms of number of vessels as well as **gross tonnage**. The growth of trade, the need to address new trade patterns and logistical needs, combined with the pursuit of innovation, led to the development of new size categories and **a trend towards bigger ships**, thus to a drastic increase in new orders.

Discussion Points

01. What is the effect of the shipping industry in globalization?
02. What has driven the evolution of shipping industry?
03. How do advanced economies compare to developing economies?
04. How has the shipping industry responded to growing demand?



These megatrends were abruptly interrupted by (I) the economic downturn of 2008-2009 and the subsequent (ii) decline in global growth rates and (iii) the drop in demand for both consumer and industrial products.

The **ensuing surge** in new deliveries resulted in a dramatic correction of **freight and charter rates** and **asset values** as the market entered a new era of tonnage oversupply affecting all major sectors.

The dry bulk sector had experienced a thriving market between 2007 and 2008 in the aftermath of the Chinese economic boom. Today, any potential growth of global seaborne trade for dry bulk cargoes (iron, ore, coal, grain etc.) is likely to be more than offset by the rise in the world fleet capacity, as the orderbook rate at 23% of the existing fleet remains alarmingly high. This will result in prolonging the present overcapacity problem and the ensuing depressed market conditions.

The Tanker sector has demonstrated a relative stability. On the supply side, the world tanker fleet has experienced a less dramatic surge in DWT capacity compared to the dry bulk fleet. On the demand side, the **growing middle class**, particularly in the **emerging economies** of Asia and Africa, will have a positive impact on energy needs. The drop in oil prices, if sustained, will further strengthen demand and prompt electricity producers to convert coal or gas-fired power plants to oil. Moreover, the shift in refinery capacity towards the Middle East and Far East is expected to generate new transport patterns and increase ton-mile demand for product tankers. Companies operating **LNG fleets** globally seem well positioned to benefit from the positive long term sector fundamentals. **Container trade** is increasingly relying on exports from the Far East, with the Far East-North America and the Far East-Europe itineraries today dominating container transport.

For the near future we can expect that the seaborne container trade will increase further, with the Far East retaining its dominant position. The shipping industry has responded to the prolonged downturn primarily through (i) **slow steaming**, (ii) **vessel idling** and (iii) **cost-cutting**. As the prospects of a sustained recovery remain distant, the trend has also been towards industry consolidation operationally, through alliances, and financially, through mergers and acquisitions.

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05. What intercepted the growth of the shipping industry?

06. How do the dry bulk and tanker sector compare?

07. How has the shipping industry managed to go through the depression?

08. What are the prospects now?