

Paper 1

Shipping Dynamics in the changing scenario arising from the crisis of the global coronavirus pandemic in container shipping sector

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Background

There is unrelenting concerns since early January 2020 onwards arising from the global COVID-19 outbreak and its seemingly unforeseen damages on the global social, political and economic framework. This essay will explore the global scenario largely on the global shipping industry including within this, references to earlier global challenges that have impacted on economic and social aspects of human lives. In the shipping scene, this essay will place the global aspects in context of the container shipping sector, that provides scheduled services in ships carrying cargo in container boxes. These shipping services have been in service since the early 1960 providing services for the carriage of cargoes on a global scale and they complement the other sectors such as bulk dry and liquid cargoes, which are formulated on different market structures.

It has become evident in the recent literature, largely on the published media reports on the coronavirus pandemic and covering the maritime and container sector, that there are challenges which could be seen as potentially as unseen dangers for humankind on an unprecedented scale. These ideas and views from a current perspective, are taken forward and explored here, and thus examining their implications for world economic growth and possible reflections on their influence for South East Asia including Malaysia.

Approach to discussion

The format here will briefly introduce the global scenario in seaborne trade and maritime navigation and relate these dimensions to the challenges of the global pandemic. The discussion will the explore to develop the background frame, references to historical events such as the impact of the Spanish Flu in the early 1912-18 in Europe and how humankind responded. This will then move towards exploring implication of the coronavirus pandemic currently on global maritime economy with focus on the shipping industry that according to UNCTAD carried more than 80% of global trade. The approach will begin with discussion on one sector within the industry, which is container shipping sector of global seaborne trade, which will enable to draw reflections on implications for Malaysia's external trade flow by sea. This is particularly relevant since much of the discussion in the context of the oceans and external trade for Malaysia, have given much attention to this segment. In later papers, which follow, the scenario in other key segments of the maritime shipping sectors such as tankers, and bulk cargo trades will be presented.

This essay will track research tracking reference to leading sources in the shipping sector such as Lloyd's List and formulate ideas from institutional perspectives of states on national, international and regional intervention in the face of these challenges. The approach adopted is to show the industry structural aspect as being

deeply entrenched in the policy dynamics of states in their shipping operations carrying world trade. In particular, for the container sector, their delivery of their scheduled services will take our views toward the rules on competition which is an important regulatory component of the container shipping industry.

Historical Dimension

Our lives as humankind now faces the onset of the coronavirus crisis so-called COVID-19 today. There is widespread fear and in fact also evidencing panic on a global scale that we as humankind may not have witnessed in all our lives. There are similarities within the socio-political domain as seen in the impact of the Black Death in Europe between 1348-50 where more than 60% of population perished, which had massive impacts on lives of people (Ogilvie,S and Carus, AW 2014). In some European states, there were social domains such as serfdom which declined and changed the dynamics of social and economic relations within people and states within the regions.

Another major pandemic was the Spanish flu, which was an unusually deadly influenza pandemic. This lasted according to literature, from January 1918 to December 1920 taking place within the time of the First World War and is reported to have infected 500 million people, estimated at that time to represent a quarter of the global population. The damaging impact was the death toll which was reportedly estimated to range from 17 million to almost 50 million and even as high as 100 million, reported the deadliest pandemic in human history (Martin K; Nilsson T and Pichler S; 2014). Importantly, this flu epidemic did not spare Malaysia, then known as British Malaya, where it was estimated that total deaths were more than 34,000 or almost one percent out of a population at that time in 1919 of 3.6 million people, a tragedy indeed (Ministry of Health, United Kingdom: 1918).

Research and concerns on approaches within societies including states in Europe on their response particularly on the impact on the economic and social lives have continued until current times. It is therefore of importance that when we explore the implications on the global economy arising from the current global coronavirus pandemic, we need to reflect on perspective from these aspects. There is certainly the wider view that we are not sure when the pandemic will abate, and when lives will be restored to normal since all these events took place.

As for our concerns, particularly from the global economic perspective, it would be necessary to be aware of interest for the global trade, shipping and regulatory community. The regional South East Asian perspective can be telling with the deep involvement of major economies including China in the supply chain within East Asia, and with global trade as being regarded as the engine of global economic growth. There will be reference to involvement of seaborne navigation in the carriage of this world trade and the general view is that perspectives on growth of world economy include important implications on shipping in terms of global economic expansion. Importantly also, the implication on global human social and economic welfare and pointedly how Malaysia within the nations in South East Asia would likely respond to

these unknown and dynamic changes taking place from the unfolding global calamity.

Global seaborne trade perspectives

Seaborne trade is basically an outcome of global economic growth and according to UNCTAD (2019), there was a fall in world domestic product (GDP) 2018 and this was expected to go into 2019, and with all the unknowns now emerging we will not be able to suggest how the scenario will be for 2020. As for the main trade flows, key uncertainties are emerging from the economies of the USA and China which have in recent months seen predictions of further downward flows. According to UNCTAD, it is the global industrial production that shows the flow of demand for seaborne navigation of trade and with falls here the predictions for the future remain uncertain.

Emerging concerns on service levels

It is seen that the ongoing global crisis arising since late December to presently in April 2020, has seen important implications on the global shipping industry, which, according to UNCTAD Review of Maritime Transport 2019, mentioned earlier, carries almost 80% of global trade. There are more than 90,000 merchant ships serving this global trade in all varieties of cargoes from the dry and liquid bulks to general cargoes including the containerised trade. From this overall capacity, there are about 6,000 container ships which as a sub segment in the industry, will be examined in this essay. As these trades by sea navigating ships flow on a global scale, there continues to be the linkages between production and consumption of all varieties of commodities and this has been the feature of human economic and other ties over centuries.

While the detailed analysis of these divergent trading and navigation covering these divergent segments in the maritime industry is critical, it is also important to give insight in the sub segments that display important outcomes arising from the present global crises and this will be applied here in the container shipping industry. A useful reference here is the ocean linkage map of Malaysia, that will enable the views in contextual perspective as shown in the map in Figure 1 below..



Source: Google.com: maps of Malaysia accessed on 19 May 2020

The map above shows the locations of Malaysia in an oceans structure with links globally by sea, including the important sea land of the Strait of Malacca.

In taking the discussion forward, it would be useful to understand the wider theoretical perspective arising from this global pandemic and these dimensions on shipping, are explored on how these challenges could be taken forward in our lives. The global dynamics may take three perspectives, first the nature of shipping as an activity of derived demand which has a tendency for high elasticity, in other words total demand will change significantly if the price and costs as well as consumer incomes are materially affected by changes in the market. The emerging final demand structure and pattern arising from global COVID-19 calamity will influence shipping demand thereafter. The increasing importance of digital economy post COVID-19 is one development that is expected and needs to be factored in. Secondly the world supply chain can change with the effects of lockdown policies of all major countries being affected such as China, USA, United Kingdom, France, Italy and Germany, as well as Japan and South Korea.

The shipping industry being part of this global supply chain may breakdown partly or otherwise, given that these are major trading nations that are also facing the unforeseen challenges within their economies. Restarting the industries all over again depends on how these trading nations respond to new scenarios and on the pace at which domestic adjustments can be undertaken. This brings to the third perspective, namely global policy coordination and actions taken to resuscitate the global economy. This particular global pandemic brings a different dimension to crises management. Whereas recent crises were financial and economic in nature, this crisis has an added dimension, the health crisis of global proportion amid economic inequality and poverty. The UN, IMF and other world institutions together with leaders have to banish their political and ideological differences to pursue a more united and sustainable community of nations and people. In this essay, the structural changes being wrought on the shipping and maritime sector of the global economy, including unseen and unexpected proportions on the industry will be discussed and the idea is to engage in a wider analysis on how these will emerge in the unforeseen future.

Structural Dimensions of the container sector of global shipping

Here, in order to place the industry in perspective, it will be useful to take an overview of key statistical dimensions on the sector to appreciate how the supply of ships in response to the changing global trade dynamics will emerge. This data from a leading shipping source, such as Alphaliner indicates, that for global seaborne trades there are for 7 April an estimated 6141 active container ships offered by leading companies such as APM Maersk, MSC, COSCO Group, CMA CGM Group, Hapag Lloyd, ONE and Evergreen. Importantly, from an industry perspective, together, these leading companies contribute almost 71% of global deployed capacity in the containerised shipping trades (NCTAD, 2019). Their position in the

supply of capacity could be seen as a level of dominance, reflecting the economic and industrial dynamics of supply of scheduled services in shipping, a unique feature of container shipping. It is therefore usual to see this dominance in supply as a comparison with the other suppliers all in total to almost 100 container shipping companies, and which have been the subject of critical policy institutional reviews from the mid-1800s and particularly so since the early 1900 under economic regulatory institutional infrastructure.

These dimensions will be explored in this series of analysis on the crucial role that this sector plays in keeping humankind linked from perspectives of economic relations in production and consumption in their unique offer of scheduled container liner shipping services. Here the question that emerge would be:

“Whether the current economic and political dimensions from a global institutional perspective exploring theoretical frame on role of the state and market in the maritime sector, have to be given new dimensions arising from the unknown future from the current dilemma of the global pandemic crisis of 2020?”

Recent dangers emerging unique to maritime and container in specific

According to LL (Mike King, April 2020), citing data from Drewry, the leading carriers are facing huge dilemma with the onslaught of the crisis seen in terms of the downturn in cargo volumes and these are having serious impact on shippers who are those engaged in the carriage contracts with these carriers. Thus the fall in cargo volumes are leading carriers to reduce sailings through actual suspension to cancellation of previously announced sailings there is reference to predictions by Lars Jansen of Sea-Intelligence Maritime Consulting (cited by King, 2020) that disruptions will be the reality, and thus planning becoming almost impossible.

As reported in [Lloyd's Loading List](#), Drewry expects additional blank sailings and service suspensions to be announced as container shipping carriers attempt to manage the downturn in box volumes resulting from economic shut downs as governments attempt to limit COVID-19 deaths. For those shippers, or traders, not affected by declining demand and still buying space on container ships, further disruption should be expected, according to Lars Jensen, CEO of Sea-Intelligence Maritime Consulting (King, M 2020).

Interestingly, it would be useful to recognise that the container shipping sector is unique from an economic regulatory perspective, reflecting competition law dimensions. Although an international industry, it is useful to be aware that this shipping sector which provides services through horizontal collaboration in alliances, with other competing carriers come under the jurisdictional purview of economic regulations of states through which their services are provided. This includes, the European Union, the USA, China and also the Competition Regulations of Malaysia, for services to Malaysian container ports. The collaboration, which are within the realm of competition however are allowed under regulatory regimes on competition in order to maintain effective schedules in sailings to ports within a chosen route. The emerging view, following the pandemic crisis, for shipping, is that there should be a lower state intervention given the current difficult situations on deployment of

ships, giving prominence towards allowing horizontal collaboration in alliances among competing carriers, although this could be in policy terms be regarded as anti-competitive.

The report makes reference to disturbing recent announcements by alliances such as the “2M and THE Alliance on capacity cuts on the Asia-Europe trades with almost immediate effect, with the former suspending the Far East - North Europe ‘AE-2/ Swan’ service and of the Asia-Med ‘AE-20/Dragon’ service which was due to start loading in China on 8 April.” These downturns in services will be on all major routes leading to voyage cancellations and therefore showing the potential for disruptions on global navigation of container ships on worldwide routes and potentially impacting also on Malaysian ports. This is compounded by announcements that another collaborative group, on the trans-Atlantic trade, THE Alliance has also removed the 22 April westbound sailing of the North Europe-USEC ‘AL4’ service from London-Gateway citing a lack of cargo. Further, shipping giants such as COSCO Shipping Lines, OOCL, Yang Ming and Ocean Network Express have reportedly decided to postpone the launch of their new service, all indicative of concern and uncertainties facing the global container shipping network all the way. These developments reinforce the views that there should be greater freedom in planning and deploying ships in scheduled services for container cargoes among competing carriers to allow for continued undisturbed seaborne carriage of cargoes from production to consumption on a global scale.

Supply Side Container Shipping Disruptions

At a detailed level it is useful to refer to more evidence on slowdown in demand and sweeping changes in sailing schedules all “due to the unprecedented nature of the coronavirus pandemic and the forecasted sharp downturn in demand”. The outcome will be voided sailings over the month of April on all trade served by the alliances of container shipping companies predicting an impossible state of affairs for the industry as well as for the transit and distribution of cargoes normally carried by these ships globally.

Importantly, Baker (Lloyds List, April 2020) states that only recently, Hapag-Lloyd chief executive Rolf Habben Jansen said that” ... we expect a significant effect of the virus on global container traffic in the months to come, and if this happens we will have to make some adjustments to the network”, thus reinforcing the view that it is all uncertain for the future. According to Will Walters (2020), Alan Murphy, CEO of Sea-Intelligence, had informed that “the largest capacity withdrawal is seen in the Asia-Europe trade where we will now enter a 4-week period with 29-34% of the capacity having been removed from the market”, adding: “The financial impact on the carriers could also be profound, although the magnitude to a large degree depends on the carriers’ pricing discipline going forward.”

In the “most benign scenario”, he said carriers would “experience a 10% volume decline in 2020 due to the pandemic but manage to prevent any material decline in freight rates. In this case their profits will decline by 6 Billion USD compared to 2019 and cause all main carriers combined to lose 0.8 Billion USD in 2020. “In the worst case, the carriers will see freight rates decline to the same degree they experienced during the financial crisis in 2009. In this case the main carriers will collectively lose a staggering 23 Billion USD in 2020.”

Murphy added: "It is therefore clear that the primary purpose of the capacity reductions should be seen as an effort to prevent a catastrophic drop in rate levels. The cost savings are also important, as they too are measured in the billions, but pale in comparison to the impact declining rate levels will have overall.

"Hence the development in freight rates will be important in the coming weeks, as that will determine the degree to which we will see even more aggressive capacity reductions." We are therefore witnessing huge unforeseen impacts on the industry of shipping serving global seaborne trade, reflected as operating on the basis of principles of 'derived demand' within the frame of economic theory.

Intervention by State and Interests of the Market: theoretical perspective

These operational aspects of huge downturns are going on and awakening a reality in humankind thinking which could be influenced according to the BBC report (Anna Khoo; 8 April 2020) informing that the coronavirus lockdown sees air pollution fall across the UK with nitrogen dioxide (NO₂) levels fall by up to 60% on the same period last year (citing DEFRA sources). It is possible that all aspects of human dimensions are in total confusion and the very principle of planning may not be relevant at any time in future. We have pursued our lives by following human understanding of time and timeliness and they may not have any meaning now for humankind and in fact even for living beings together with the earth as supporting all of beings over the millions of years of presumed existence.

In relation to shipping, notions of meeting schedules and loading and discharging cargoes in the container ports and routes globally takes on different meanings and may have to just look towards the realities in the pursuit of economic efficiency and importantly on what is coming in future for humankind.

The views emerging are that carriers are facing totally uncertain futures and thus aspects of schedules are going nowhere and likely towards becoming completely irrelevant, when normally it is the core definition of container services operations though global alliances.

More recently, on 7 April 2020, the World Shipping Council (WSC) in its opinion on the critical role of the container shipping industry had this to state:

"...government policies should ensure that the flow of cargo through the world's ports remains fluid during the coronavirus pandemic." (cited in Lloyds List Intelligence)

The approach here thus brings forth economic arguments on the theoretical perspectives of the role of the state that have traditionally driven state and market interactions over more than 100 years from the neo classical schools to that of the political institutional economic perspectives of leading authors such as Keynes and Schumpeter and Marx. There the flow of the argument is to highlight the critical role of the container shipping industry to move cargoes of different types from production to consumption across the globe during this pandemic. Here the WSC is raising the point for more deliberate intervention by states to ensure ports remain open and that the safe life of seafarers who are key frontline people in the sector should be the focus of policies. The seriousness is emphasised when the WSC further states:

"Even as the crisis upends daily life, people continue to have basic needs for food, medicine, and other supplies. And even as we all take steps to address the immediate situation, countries across the globe are preparing for recovery."

In speaking for the container sector, WSC states:

“The world and every part of society are being tested in ways that we have not seen in many decades. The container line shipping industry is adapting and responding to the challenge, and we are moving the world’s cargo. The difficulties are many, and there have been and will be disruptions and delays. This is not business as usual.”

We are clearly witnessing distressing observations on the difficulties that humankind could face for a long and uncertain time into the future. In these ideas are the notions of how the community of humankind either as states or as an international global network work towards reaching something in the future. The imperative is to reflect on the research question, whether there will be any relevance to the thinking to be linked to traditional theoretical framework since their ultimate outcome would be in relation to economic progress that would not only enhance wealth, but depending upon the objectives in a political or institutional perspective would also consider the well being of humankind. These notions may have to be revisited now that there are uncertainties on a global scale not seen in recorded history of humankind even with the pandemic of the scale of the Spanish Flu in the 1918 that occurred in Europe.

Environmental Approach to Sustainability: Doughnut Model

Another vision of the future of humanity is suggested by the model envisioned for Amsterdam using the “doughnut” model to mend the economy post COVID-19. Citing The Guardian and referring to the model of Kate Raworth from Oxford University Environment Change Institute. The approach will be to take off global attachment to economic growth and laws of supply and demand and bring in the doughnut model for countries and cities and people to thrive in balance with the planet. This is based on the 2017 Book: Economics: Seven Ways to Think Like a 21st Century Economist, and which is described as a breakthrough alternative to growth economics.

Importantly, on 8 April 2020, the model would be formally adopted by the municipality of Amsterdam as the starting point for public policy decisions, the first city in the world to make such a commitment. The central message is simple, according to the Guardian:

“...the goal of economic activity should be about meeting the core needs of all but within the means of the planet. The doughnut is a device to show what this means in practice.”

Lives of seafarers on board merchant ships

Following upon these developments and reflections, there is another human dilemma emerging from the shipping scenario world-wide, which is the suffering of seafarers on board merchant ships. As we may be aware there are around more than ninety thousand ships traversing the oceans of the world carrying cargoes to connect points of production to consumption for the humankind population and thus the important burden on this special group of seafarers.

According to a recent BBC report (Bowler 16 April 2020), there are about 1.6 million seafarers on board these ships ranging from tankers to container ships and already these seafarers are feeling the impact of the coronavirus outbreak. It is usual that there would be around more than 100,000 mariners who could be looking towards for home bound trips after their service on board these ships taking care of the commodities carried to serve all of us globally. They would be normally waiting to be taken home to be with their loved ones and the pandemic has halted this transfer of crew changes and these are reported for all shipping firms globally. The outcome is that these seafarers will be unable to leave on global travel with all the restrictions in place and thus facing isolation brought on the industry by the terrible pandemic outbreak. This industry will continue to face more hardships for their operations and thus further impact on the global economy that is forecast to go deep down into a huge recession as the outcome of this pandemic worldwide.

Globalisation and human relations

In another view, Ian Goldin (2020), an Oxford Academic has stated that although globalisation has lifted billions out of poverty, the surging trade and travel globally also contributes to the spread of infectious diseases. When these are pandemics, there emerges the need to monitor and intervene to stop the spread, particularly in a global dimension and this could be really challenging indeed. The pandemic, according to Ian Goldin, pose threats to not only the global economy but more importantly to our lives and we need to give all the world as a community to face this global threat of the pandemic.

Conclusion

Thus it would be appropriate to revisit the question, **“whether the current economic and political dimensions from a global institutional perspective exploring theoretical frame on role of the state and market in the maritime sector have to be given new dimensions arising from the unknown future from the current dilemma of the global pandemic crisis of 2020?”**

The response, in conclusion, appears strongly to suggest that the global dynamism will challenge all expectations of humankind and here including particular perspective faced in the ocean shipping world. The industry that carries and delivers the need of humankind over centuries is now facing unprecedented uncertainties, arising from the outcome of the pandemic and the focus is also that the future has to be seen together with what we see happening on the earth today. The specific sectoral dimension shown just within the container shipping industry, draws all ideas on nations and the international state and industry relationships to the fore. Here, the call for international institutions and relationships would be to draw new frontiers that would go on and beyond ideological or political differences and work towards addressing the unknown facing humankind. It is also important that these ideas are continued to be explored now and into the future from different industry perspectives, such as here from the global shipping and maritime dimension.

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