Geopolitics and slowbalisation: Reshaping global trade and economy

7th October 2024

Session 1: World Economy

Presented by

Arjun Batra

Executive Chairman

Drewry Shipping Consultants

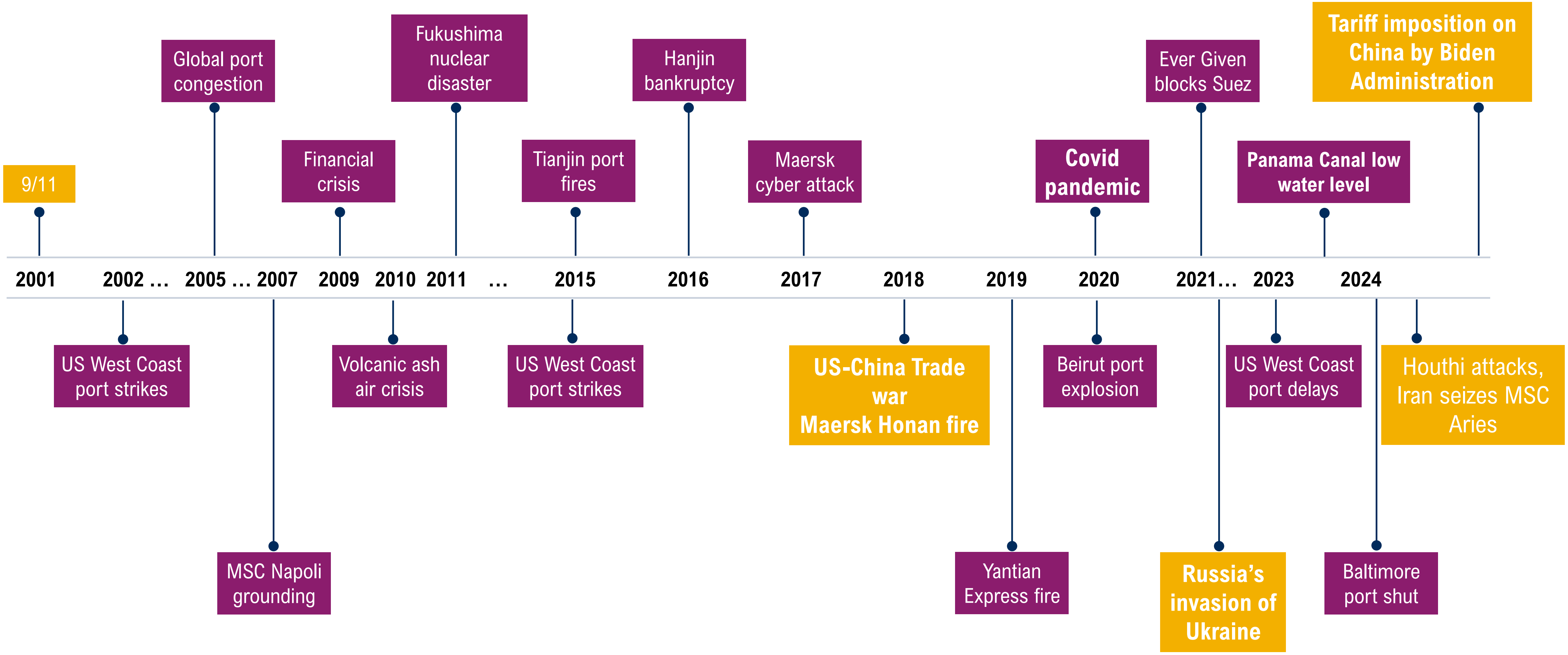
Email: batra@drewry.co.uk

5th Athens Triennial Meeting, 7-9 October 2024
combined with
The 40th Anniversary of the Costas Grammenos Centre for Shipping, Trade and Finance
"Industry challenges: A global perspective from Athens"

Disruptions shaping the world

Geopolitics and supply chain disruption has become a new normal

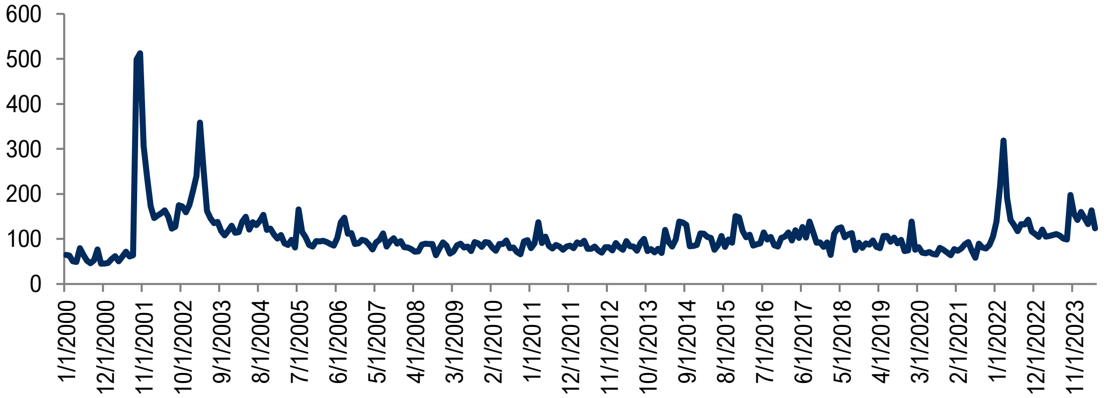
From global wars to terrorist attacks, sanctions and embargoes as well as natural cataclysms have shaped shipping markets through its history.



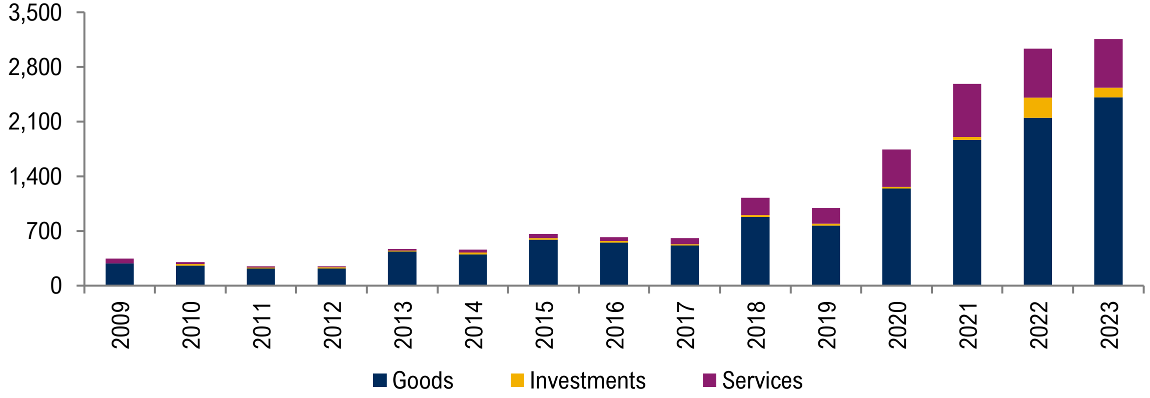
Geopolitics is driving Slowbalisation

Geopolitical risk has always persisted but is getting heightened now. The Geopolitical Risk Index is pointing upward now. Trade restrictions take the form of trade tariffs and non-tariff barriers. It has increased to about 3,000 in recent years, leading to a flattening in trade and the global GDP ratio.

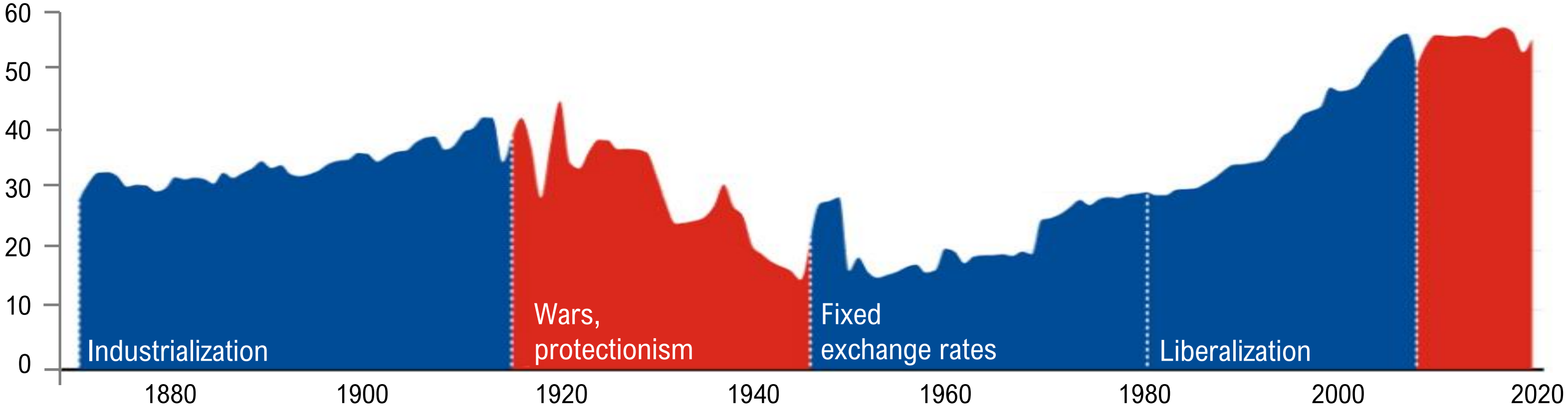
Geopolitical Risk Index



Trade restrictions



Trade Openness: Sum of exports and imports as a percent of GDP



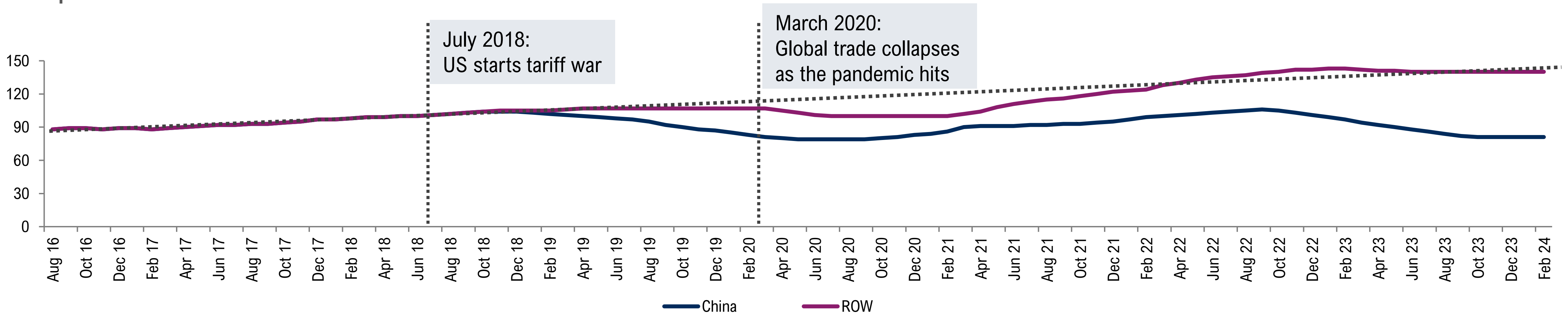
Note: Sample's composition changes over time.

Source: PIIE, Jorda-Schularick-Taylor Macrohistory Database, Penn World Data (10.0), World Bank, and IMF staff calculations, https://www.matteoiacoviello.com/gpr.htm, Geeta Gopinath et al (2024)

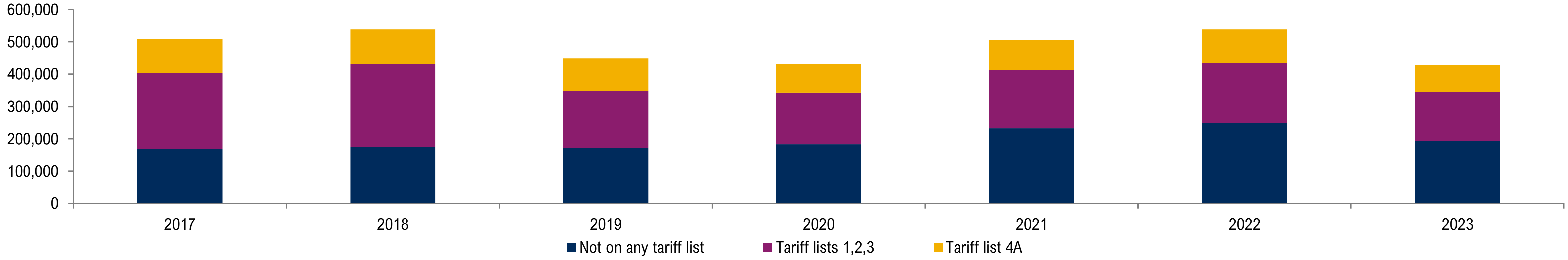
Trade pattern changing

The US-China trade war altered the trade pattern. The cargo flow from the rest of the world continued to increase while China's has been falling. 85% of Chinese exports are now directed to emerging and other developed economies.

US imports from China and rest of the world



Both trade in commodities from China with tariff or without tariffs fell

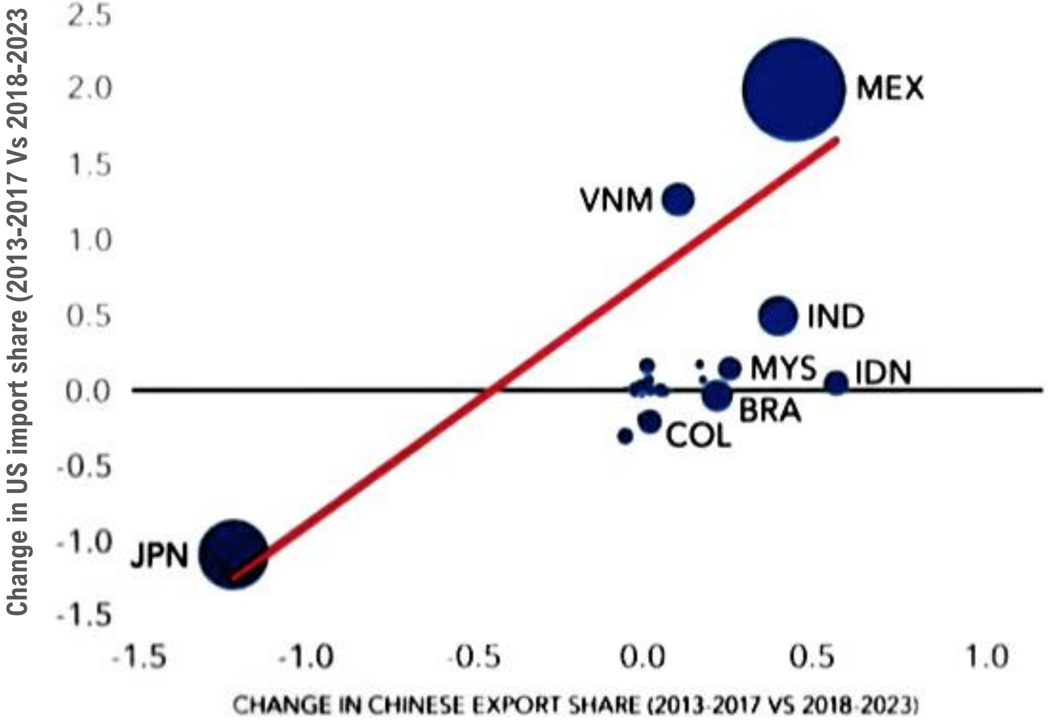


Source: Mary E Lovely (2024)

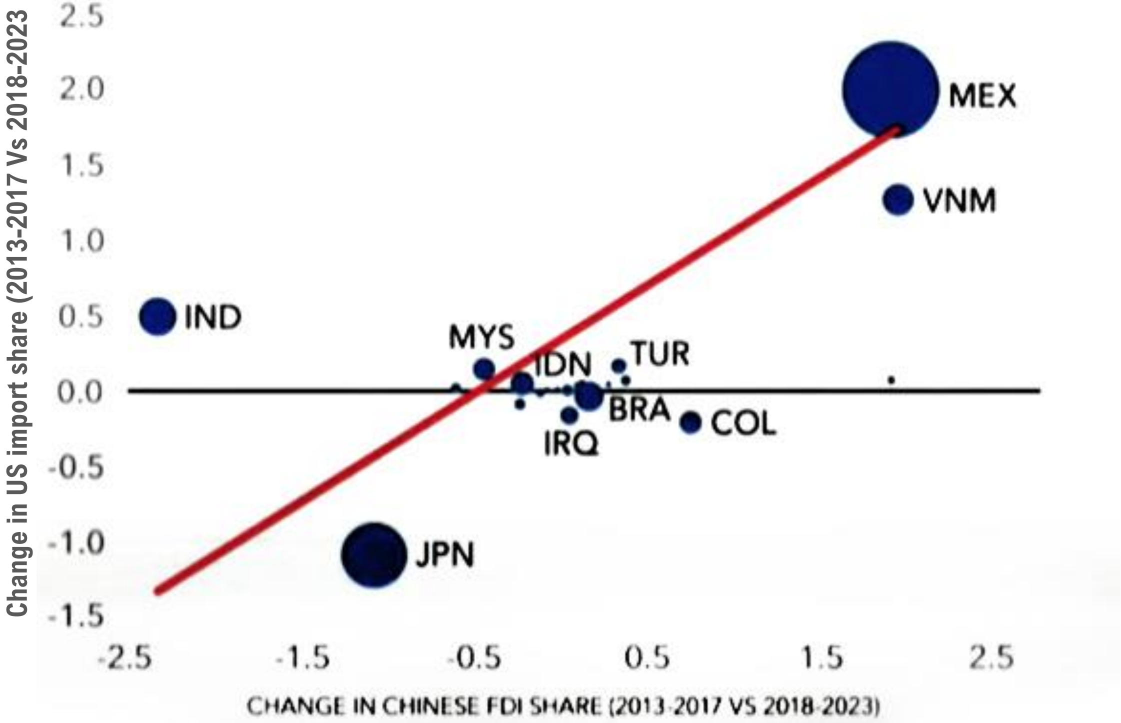
Emergence of connector countries (Primarily Mexico and Vietnam)

Vietnam and Mexico have emerged as the connector countries. Chinese FDI as a share of total into Mexico has gone up from less than 5% between 2003-2018 to around 18% in 2023. Chinese export share and FDI share to these countries have gone up. Simultaneously, US imports from these countries have also gone up. This trend will be accentuated with a new set of tariffs from the US.

Changes in US import share vs Chinese export share



Changes in US import share vs FDI from China

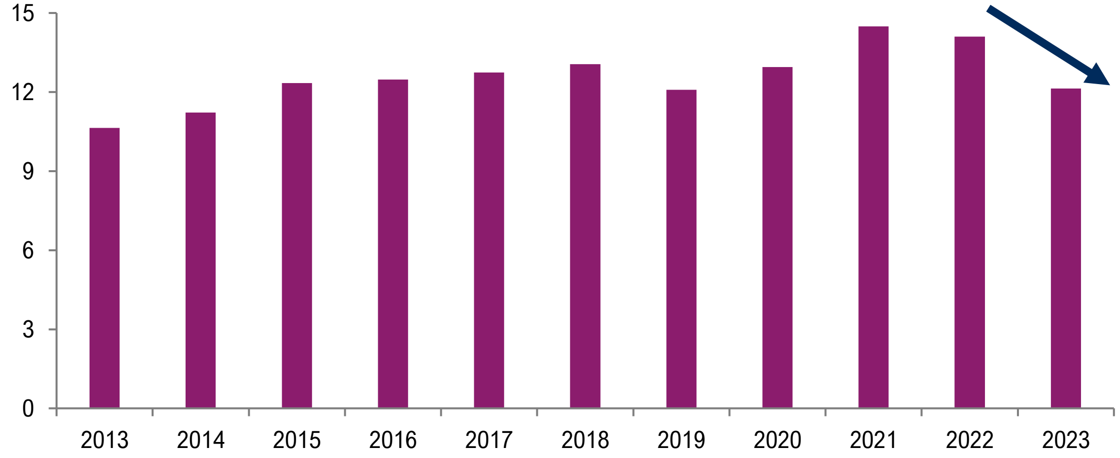


Note: VNM: Vietnam; MEX: Mexico; IND: India; IDN: Indonesia; MYS, Malaysia; BRA: Brazil; TUR: Turkey: Col- Colombia; IRQ: Iraq
Source: Geeta Gopinath et al (2024)

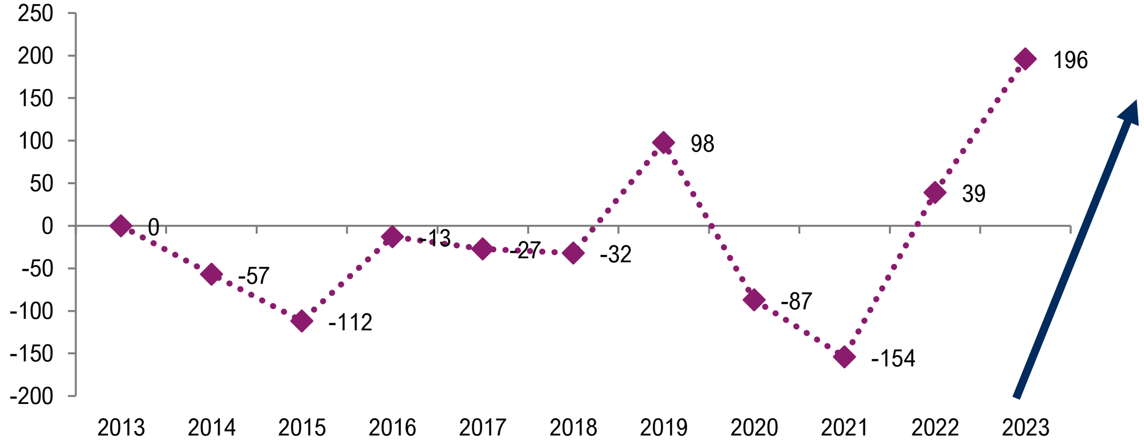
US manufacturing import ratio down and Reshoring index up

US imports as a percentage of domestic production went down in 2023, and simultaneously, the reshoring index increased.

US manufacturing import ratio: Total manufacturing goods import from 14 Asian low-cost countries



Reshoring index: Year-over-year change in the US manufacturing import ratio



2023
- US Import from 14 LCCR declined by US$143 billion
- Two consecutive years of US manufacturing import ratio up
- Canadian exports gained US$13 billion
- EU export gains US$7 billion

- Nearshoring
- Friendshoring
- Reshoring

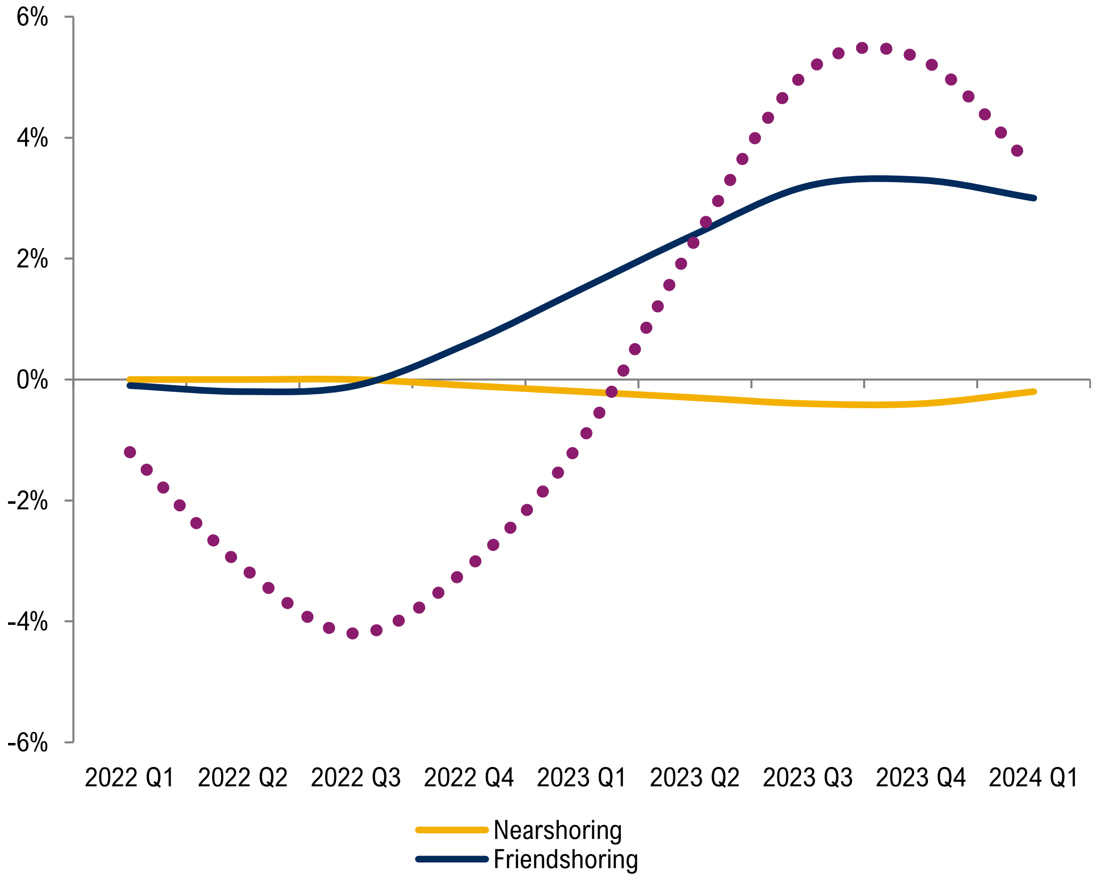
Note: LCCR: Low-cost countries and regions: includes Mainland China, Vietnam, India, Philippines, Malaysia, Indonesia, Pakistan, Sri Lanka, Taiwan, Thailand, Bangladesh, Singapore, Hong Kong, Cambodia

Manufacturing import ratio: Total manufactured goods import as % of domestic output

Source: AT Kearney (2024)

Friendshoring and trade concentration trends continue to shape global trade in Q1 2024

Friendshoring, Nearshoring and Trade Concentration



Recent FTAs

- **2019** EU-Vietnam FTA
- **2020** Australia-Indonesia FTA
- **2021** China-Cambodia FTA
- **2022** RCEP (Regional Comprehensive Economic Partnership)
- **2018** CPTPP (Comprehensive and Progressive Agreement for Transpacific Partnership)

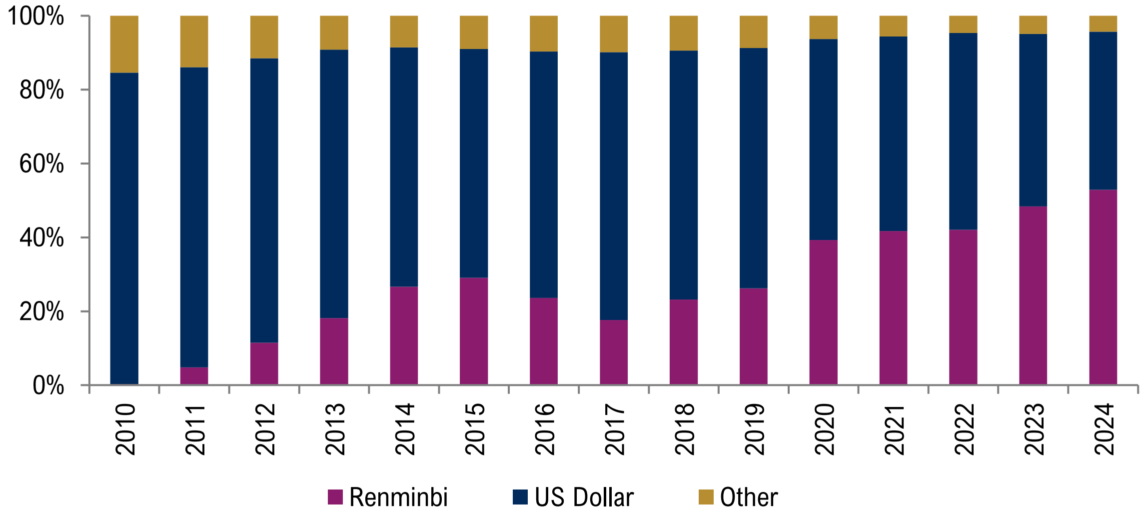
Note: Quarterly growth rates are relative to the previous quarter. Annual growth refers to the last four quarters. IR denotes intra-regional. Data is seasonally adjusted. Data does not include trade in services. Imports and exports exclude intra-European Union trade.

Source: UNCTAD

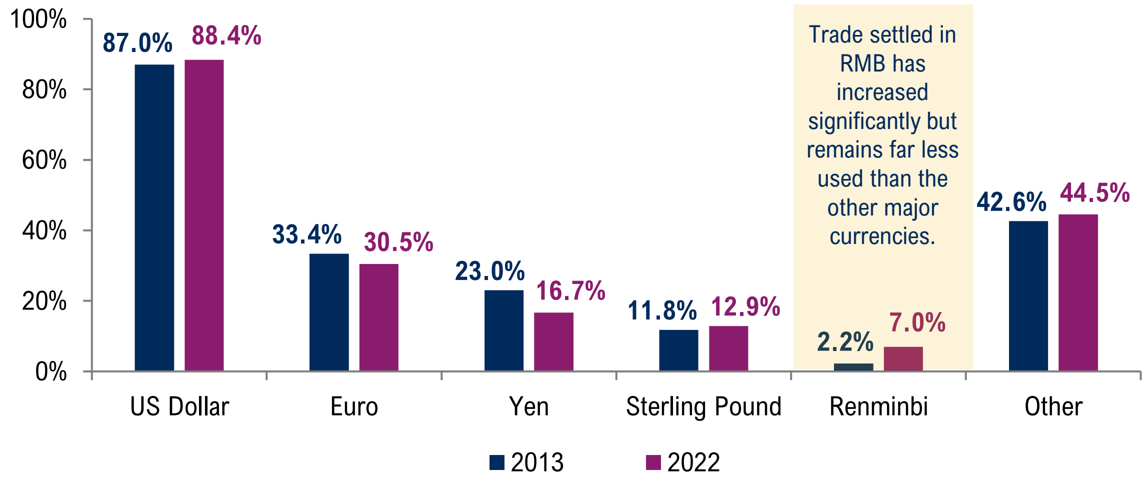
De-dollarisation in progress

As a result of the Russia-Ukraine war, global currencies and the dominance of the US dollar have experienced significant changes. The war has caused a shift towards diversification and the use of new reserve currencies, resulting in a slow movement towards de-dollarisation.

Share of currency in China's settlements, 2010 - 2024



Share of Foreign Exchange Transactions, 2013 & 2022



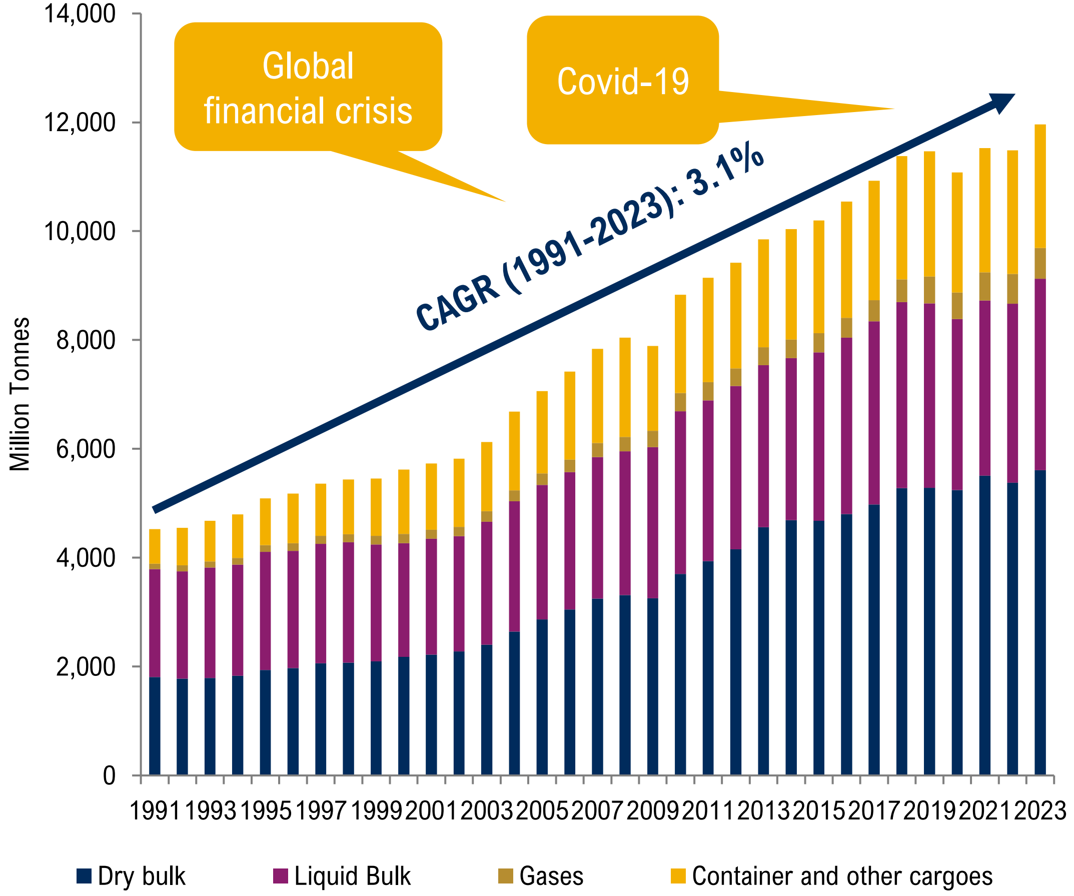
Note: Since two currencies are involved in each transaction, the sum of the percentage totals 200% instead of 100%.

- In March 2023, the share of Renminbi (RMB) used in China's cross-border transactions surpassed the USD for the first time – more than half (52.9%) of Chinese payments were made in RMB while 42.8% were completed in USD.
- Foreigners' increased willingness to trade assets in RMB significantly contributed to de-dollarisation. Furthermore, in early 2023, Brazil and Argentina announced the commencement of allowing trade to be settled in RMB.
- The share of reserves held in U.S. dollars by central banks has declined from 65% in 2016 to 59% in early 2023.
- Cross-border loans, international debt securities, trade invoicing and SWIFT payments still between 40% to 50%.
- The rise of the RMB could potentially weaken the USD's influence on international trade, but a complete de-dollarization is unlikely due to China's strict capital controls and economic growth.

Despite geopolitical issues seaborne trade may remain resilient but with new trade partners

Seaborne trade has grown continuously (with only two years of significant contraction) since 1991. All key sectors have seen growth post-COVID despite all the challenges and disruptions. The maritime sector has demonstrated its resilience.

Seaborne trade development



Source: Drewry

Key conclusions

- Geopolitical issues are unlikely to resolve irrespective of who is elected as president of the United States
- Friendshoring is likely to continue particularly trade with FTA countries will accelerate.
- Slow weakening of the US Dollar is likely to continue as the Global South and other economies will continue to push for it to lessen reliance on a single currency..
- Global trade is likely to remain resilient.
- The greater impact on global seaborne trade and trade patterns will happen due to environmental regulation and “decarbonisation’s“ impact on coal trades and hydrocarbons. These will be replaced by new trades such as ammonia, hydrogen, methanol, e/bio-LNG, CO_2 etc.
- Therefore, sea transportation costs will increase. This will change trade patterns, making some traditional long-haul trade unviable.

Drewry: What we do

We combine rigorous analysis with practical advice

In boardrooms across the globe, decisions are made based on the analysis and insight provided by our Maritime Research teams. This rich industry knowledge and understanding provides the unique intelligence that underpins our advisory services.

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Drewry : What sets us apart

Our combination of sector knowledge, rich market insight and commercial awareness enables us to deliver the performance, profitability and compe advantage our clients seek.

Drewry

Independence

Our voice is our own and is not defined by others
This impartiality, alongside our depth of market understanding has cemented our reputation as an indispensable reference, trusted by a diverse audience of shipping industry stakeholders.

6 — **$6bn**: The combined value of shipping industry transactions we have advised in the last 10 years

Heritage

A trusted brand for more than 50 years
We have been charting and analysing the world's maritime markets for over 50 years, building unique resources and models our clients rely on to make informed decisions.

8 — **$8bn**: Total value of vessel portfolio and shipping freight spend we have provided strategic advice for since 2010

Market Insight

Rich insight – unrivalled market intelligence
Our understanding comes not only from being close to the sectors we serve but also from working with our clients and giving them a balanced, highly practical and commercial perspective.

120 — The number of shipping market outlook studies our consultants have conducted across various shipping sectors since 2010

Sector Expertise

Industry knowledge
We combine timely and relevant market analysis with specialist sector and technical expertise to deliver real commercial value and competitive advantage to our clients.

500 — The number of shipping assignments our consultants have been involved in the last 10 years

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Drewry

UK
35-41 Folgate Street
London
E1 6BX
United Kingdom
T +44 20 7538 0191

INDIA
4th Floor, Tower C
Urban Square
Sector 62, Gurugram
122098 India
T +91 124 497 4979

SINGAPORE
#17-01 Springleaf Tower
No 3 Anson Road
Singapore 079909
T +65 6220 9890

CHINA
Unit D01, Level 10,
Shinmay Union Square
Tower 2, 506 Shangcheng Road
Pudong, Shanghai 200120
T +86 21 5081 0508

enquiries@drewry.co.uk

www.drewry.co.uk

MARITIME RESEARCH

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& CONSULTING SERVICES

LONDON DELHI SINGAPORE SHANGHAI