



EXAMINER'S REPORT JULY 2020

ECONOMICS OF SEA TRANSPORT AND INTERNATIONAL TRADE

General comments

Essays: for the most part were well structured, anchored on sound theory and practice and supported by examples from Industry. The essays that secured the highest marks presented arguments that were based on well founded theory and practice, and supported by examples from relevant and current global shipping and economic news and events.

Additional marks are earned by those candidates that make appropriate and relevant use of maps as well as graphs. Candidates are also expected to demonstrate an understanding of the key terms and concepts in the course, such as Elasticity, economies of scale, utility, derived elasticity, marginal costs, shipping cycles, comparative advantage and short and long run costs.

Finally, Geography is an essential part of the study of the Economics of Sea Transport and International Trade; all candidates should develop a keen interest in the subject!

1. Explain how global macroeconomic and geopolitical events impact container trade routes.

This question was a popular question; it enabled candidates to show off their knowledge of contemporary international trade and geopolitical issues, affecting the container trades.

A starting point to this question would be the definition of the concept of 'Macro Economic'.

- a branch of economics that studies how an overall economy
- the market systems that operate on a large scale
- behaves, economy-wide phenomena such as inflation, price levels, rate of economic growth, national income, gross domestic product (GDP) and changes in unemployment.

Some key elements would include:

- What creates or stimulates economic growth?
- Geopolitics, analysis of the geographic influences on power relationships in international relations and includes arguments about the political effects of geography (particularly climate, topography, arable land and access to the sea)
- events, including Iran US Conflict, US China Trade War, Silk Road project, Brexit, Renegotiated NAFTA, EU Africa trade deals, EU Green Deal etc.
- Selected Trade Route, including East West China, South East Asia - Europe, Pacific West.
- US China trade war impact on East West Textile and Apparel & FMCG, manufactured goods and other value added product trade flows.

- Disruptions from factory closures in China and changes to global supply chains and impact on national, regional capabilities.
- moving manufacturing closer to consumers and reduction in tonne-mile demand.
- The prospect of a return to more local manufacturing as fragility of the traditional just-in-time logistics model is exposed.
- How Turkey, India, Bangladesh, Vietnam, Indonesia, Cambodia and Sri Lanka indeed all of East Asia benefit from factory flight from China , placing new challenges and demands on their domestic supply chain management capabilities.
- moving manufacturing closer to consumers and reduction in tonne-mile demand.
- the prospect of a return to more local manufacturing as fragility of the traditional just-in-time logistics model is exposed.
- How Turkey, India, Bangladesh, Vietnam, Indonesia, Cambodia and Sri Lanka indeed all of East Asia benefit from factory flight from China , placing new challenges and demands on their domestic supply chain management capabilities

Concise conclusion of the major factors/ events.

2. In the tanker market, describe ALL the following:

- a) The major cargoes**
- b) The main importers and exporters for these cargoes**
- c) The growth, evolution and impact of oil and gas pipelines**
- d) Three factors that impact the market.**

A straight forward question that required candidates to answer all the parts the question, identify the main sectors of the tanker market and impact , main exporters and importers, growth, evolution of oil and gas pipelines and to describe current market conditions.

-Recommend the use of map.

- a) typical cargoes
 - crude oil and refined oil products
 - chemicals, wine, orange juice, vegetable and other food oils
 -
- b) A mention of at least five main exporting and importing countries
 - Exporters: Arabia Gulf , West Africa, Canada and Russia
 - Importers: All countries
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- c) Examples of pipelines under construction or planned
 - Nord Stream 2 pipeline through the Baltic Sea
 - Turk Stream gas pipeline's underwater section
- d) Three factors that impact market
 - supply and demand,
 - economic activity and geopolitics
 - attendant speculation.

Summary of current and future trends and conditions.

3. Identify and explain the five economic characteristics of the dry cargo bulk freight market.

This question required the identification of the five economic factors, with appropriate explanations, as follows:

- -Every supplier of the industry seeks to maximize profits- means that shipping companies sell only the output level which maximizes total profit.
- Numerous buyers and sellers in the market so no one single participant could influence freight rate.
- Service provision is exactly the same – cargo space is what is offered and is the same.
- -Easy exists from and entry to market, Unsatisfactory trading performance results in sale of vessel and exit of ship occurs when ship is scrapped, entrance is via purchase of second hand vessel or ordering of new vessel.
- -Full information is available to all, the Baltic Exchange is open and shipbrokers provide information.

Concise brief summary.

4. Using a diagram to support your answer, explain how the "break even model" is used to determine the minimum freight rate.

This question required candidates to explain how the "break even model" is used to determine the minimum freight rate.

A brief definition of the model would be a good starting point:

- Break-even analysis entails the calculation and examination of the margin of safety for a company based on the revenues collected and associated costs.
- It is a function of three factors, i.e. sales volume, cost and profit. It aims at classifying the dynamic relationship existing between total cost and sale volume of a company
- For management, the utility of break-even analysis lies in the fact that it presents a microscopic picture of the profit structure of a business enterprise.

The four Basic Assumptions of the model are:

- the vessel is taken as the basic unit of analysis
- Costs and revenues are assumed to be liner, total variable costs rise in constant proportion to output and total revenues also rise in constant proportion to output.
- The market contains many shipowners and many charterers who cannot influence the market rate on their own.
- This means that the actual freight rate is taken as fixed, since no individual has any ability to alter it.

A suitable diagram was required to illustrate the answer.

Break even Model/ Break even freight rate model.

Conclusion

5. Discuss the impact of piracy on world trade and shipping and the response of the international maritime community to this.

This question required candidates to discuss the impact of piracy on the shipping industry and the response of the maritime community to this.

The major impact is of course the cost to the world economy:

- Costs of Ransoms, increased Insurance premiums, Re Routing, Deterrent Security Equipment, Naval Forces, Piracy prosecution, Anti piracy organisations.
- increased commodity prices, resulting from prolonged journeys.
- Employment of mercenaries raises operational costs, flag state authorization and other Maritime State control considerations and obligations.
- own defence facilities on merchant ships entails huge Logistical and cost implications.
- impedes regional economic development of region, including trade and reduced foreign exchange earnings.

Examples of International and multilateral initiatives :

-Including NATO, Navies of various maritime nations such as the UK, US , China, Japan, Malaysia , Singapore, Thailand, Indonesia etc.

Concise summary .

6. Explain the concept of "the production possibility frontier, as it relates to international trade and shipping. Use suitable graphs to support your answer.

This question required candidates to explain the concept of "the production possibility frontier", as it relates to international trade and shipping and the use of a suitable graph to support the answer. A good starting point, would be the definition of the "production possibility frontier" :

The production possibility frontier (PPF) is a curve that illustrates the variations in the amounts that can be produced of two products if both depend upon the same finite resource for their manufacture.

- It shows how much an economy can produce given existing resources, the different choices that an economy faces.
- plays a crucial role in economics and can be used to demonstrate the point that any nation's economy reaches its greatest level of efficiency when it produces only what it is best qualified to produce and trades with other nations for the rest of what it needs.

Absolute Advantage: Ricardian Trade Theory: argues that a country will exports products that it produces more cheaply than any other country and exchange imports those products which it produces less cheaply than elsewhere.

Determining how countries exchange goods produced by comparative advantage ("the best for the

best") is the backbone of international trade theory.

For example, increasing the output of goods will have an opportunity cost of fewer services or consumer goods, for an economy.

Reallocating scarce resources from one product to another involves an opportunity cost.

One choice an economy faces is between capital goods (investment) and consumer goods.

A suitable diagram was required to illustrate the answer.

Figure 9.3 Country HC's Production probability frontier

A sound conclusion.

7. Using a major port of your choice, discuss the factors that have impacted its evolution and development in recent years.

This was a straight forward question and required candidates to choose a port and to discuss the factors that have impacted its evolution and development in recent years:

- Choice of Port and its management philosophy
- Discussion of specific issues that have impacted its evolution and development such as:
 - Strategic positioning.
 - Facilities provided in a port depend on the type and volume of cargo which is in transit.
 - Geopolitical dynamics e.g. Brexit, Silk worm project by China including new Trade pacts and deals.

Examples:

Expansion of waterways such as Panama canal and the expansion US East Seaboard ports

Onshore and Offshore gas, oil and related facilities

Changing physical facilities and services between sea and domestic transport / Hinterland.

Increased role in globalization and trade liberalization

Industrial manufacturing facilities (Free Zone)

Specific Trades/ Commodities, needs and requirements including containerisation of commodities

Increased FDI - Increasing movement of capital between and within countries

Conclusion

8.

8. Consider and discuss the impact that a sustained rise in crude oil prices is likely to have on world economic recovery and shipping.

This was popular question, and required candidates to consider and discuss issues pertaining:

- The centrality of Oil and it's immense impact on all world economic recovery and shipping.
- An emphatic and bold commentary on the state of the world economy and its fragility.
- High oil prices ability to derail the fragile economic recovery with very serious global implications:
 - Increased cost of food, basic household needs, manufacturing include comments on state of world economic recovery particularly that of the OECD countries with their heavy dependencies on oil.
 - reduced consumer spending as petrol prices impact the motorist
 - higher production costs would seriously impact global manufacturing and reduce production, spending on goods and services leading to a possible slip into recession with serious global economic consequences.

Global Shipping

Bunker prices and input costs would rise across the world leading to an increase in freight rates with resulting decline in world economic activity, trade and shipping. Reduced earnings for the shipping industry, investment in ship building, infrastructure etc.

Governments and stakeholders will intensify their efforts aimed at exploring ways of securing more sustainable energy sources and indeed taking other measures to make their countries less vulnerable to these unprecedented price hikes.

The New Green Deal , EU Green Agenda etc - specific impact on shipping

Conclusion