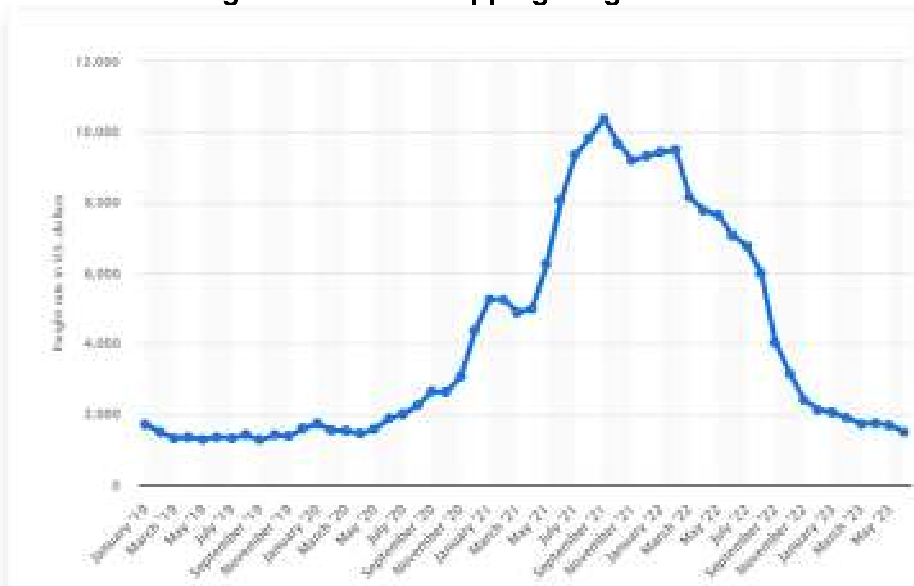
Question 1: A balancing act in the container shipping industries

Container shipping services is a mode of transportation used by shippers to transport their cargo from the seaport to the destination through container carriers. Container carriers are exclusive asset class owned by container shipping companies because they require significant capital and expertise to acquire and operate. Moreover, the container shipping industry is highly regulated, with strict safety, security, and environmental protection requirements.

Figure 1: Global shipping freight rates



Source: *www.statista.com,* May 2023

Extract 1: Container shipping in times of Covid-19

At the start of the coronavirus disease of 2019 pandemic, expectations were that seaborne trade, including containerised trade, would experience a strong downturn. However, changes in consumption and shopping patterns triggered by the pandemic, including a surge in electronic commerce and lockdown measures, have led to increased import demand for manufactured consumer goods. As of the third quarter of 2020, lessening of lockdown measures and varying speeds of recovery worldwide, as well as stimulus packages supporting consumer demand and inventory-building in anticipation of new waves of the pandemic, contributed to a further increase in containerised trade flows.

The increase in demand was more substantial than expected and not met with a sufficient supply of container shipping capacity. Empty containers to move exports from China to destinations abroad became unavailable. The reasons for this shortage were manifold. Empty containers were left in places where they were not needed, and repositioning had not been planned for. Consequently, the mismatch between demand and supply for empty containers was exacerbated.

Source: *UNCTAD,* 2021

Extract 2: Container shipping companies face losses post-Covid

After almost two years of skyrocketing freight rates that offered container shipping companies some respite in a pandemic-disrupted maritime supply chain, current freight rates sunk beyond the comfort threshold where they are now counting losses.

As global trade continues to decline due to the Russia-Ukraine war shocks, freight rates continue to decrease. In the second half of 2022, cargo transportation in container carriers has dwindled by 20% to 50%. With reduced cargo volume, many container carriers transport less than their total carrying capacity, while some are forced to stay anchored with no shipment deals. As a result, container shipping companies find themselves counting losses in operating their container carriers.

In addition, increased operating costs from the labour shortage and pursuit of decarbonisation, further swelled by the fuel-oil price hike, kept the container shipping companies from hitting profit. If this situation continues, they will have to stop operations.

Source: *Hellenic Shipping News,* January 2023

Table 1: Market Share of Container Shipping Companies

Global Alliances	Market Share	Container Shipping Companies
2M	33.9%	MSC, Maersk
Ocean Alliance	30.0%	COSCO Group, CMA-CGM, Evergreen
THE Alliance	18.2%	Hapag-Lloyd, ONE, HMM, Yang Ming
Not part of any alliances	17.9%	Wan Hai Lines and 9 others

Source: *www.statista.com,* 2022

Extract 3: Consolidation and competition in container shipping

Alliances have become a dominant feature of container shipping. All major container shipping companies are now involved in one of the three global alliances: 2M, Ocean Alliance and THE Alliance.

Consolidation activity reflects the container shipping industry's efforts to cope with the difficult market conditions faced since the 2008 global financial crisis. For many years, container shipping companies struggled with low freight rates and dwindling earnings. Over the past decade, the container shipping industry has worked with a chronic supply and demand imbalance that undermined profitability, reduced freight rates and compressed earnings.

By consolidating, container shipping companies can improve freight rates and earnings. This becomes possible as they can achieve the following: streamline operations by combining operations, improve supply management, and fleet utilisation, pool cargo, leverage economies of scale, reduce operating costs and share resources and networks. By increasing their size, they can offer a broader range of services and invest in technological upgrading.

Container shipping companies, not members of the alliances will find competing increasingly difficult. Some argue that they will be forced to join one of the major strategic players. Others contend that small container shipping companies will continue to operate in niche markets. However, evidence suggests that smaller container shipping companies operating in niche markets are already losing ground to mega alliances.

Consolidation offers certain benefits for shippers as well. These include less fluctuation in freight rates, more efficient and extensive services provided by container shipping companies and lower freight rates if cost savings are effectively passed on to shippers.

However, there is a concern that markets will become more concentrated, resulting in reduced competition, constrained supply, market power abuse and higher freight rates. Relevant regulatory and competition authorities must regularly monitor market concentration levels and large container shipping companies' potential for market power abuse. They should investigate the related impact on smaller players and potential implications regarding freight rates and other costs to shippers and trade.

Source: *UNCTAD,* 2022

Extract 4: When competition law and green drive collide

The container shipping industry faces increasing pressure to reduce its carbon footprint and decarbonise its operations. Despite some efforts from companies and organisations, overall emissions from the sector have continued to rise in recent years. One reason is the high cost of decarbonisation, more than $1 trillion of investment would be required to decarbonise the shipping industry by 2050. Currently, most carriers operate on fossil fuels; container shipping companies must replace them with new carriers equipped to accommodate sustainable fuels and propulsion technologies.

To overcome the high cost of decarbonisation, container shipping companies must work together. But competition laws are in place to prevent alliances that threaten to shoulder shippers with higher freight rates.

Regulators will face a balancing act, weighing the benefits of tackling greenhouse gas reductions with the need to protect shippers from market collusion. Container shipping companies are asking the European Commission to renew the Consortia Block Exemption Regulation (CBER) that allows many container shipping companies to cooperate through the formation of alliances to provide joint services when it expires on 25 April 2024. They pointed to International Maritime Organisation data showing larger container carriers result in “vastly lower” CO2 output than smaller container carriers.

Since the CBER exemption enables alliances to operate larger container carriers than they could viably operate alone, they are indispensable to the European Union’s fight against climate change. Yet the effort to renew the exemption faces heavy pushback from shippers and competition regulators as they question the claim efficiency gains and express concern about market concentration. The growing market concentration and increased cooperation among container shipping companies stifle innovation and have yet to lead to significant reinvestment of profits into sustainability.

There are concerns that the CBER exemption regulation can hamper sustainability instead of reducing environmental impact, and container shipping companies may make their shippers shoulder the high cost of decarbonisation.

Source: *Tradewinds News,* October 2022

Questions

(a) With reference to Figure 1, compare the trend in global shipping freight rates before September 2021 and after September 2021. [2]

(b) **(i)** Using evidence from Extract 1, justify the likely value of price elasticity supply of container shipping services. [2]

(ii) Using a demand and supply diagram, explain the causes of the change in global shipping freight rates during Covid-19 pandemic from March 2020 to September 2021. [4]

(c) Explain which market structure best describes the characteristics of the container shipping industry. [4]

(d) Considering the possible advantages and disadvantages of the formation of alliances in the container shipping industry, assess whether it is likely to be of overall benefits to container shipping companies and shippers. [8]

(e) Though Consortia Block Exemption Regulation (CBER) allows container shipping companies to cooperate through alliance formation, regulators will face a balancing act, weighing the benefits of tackling greenhouse gas reductions with the need to protect shippers from market collusion.

Discuss the case for the renewal of the CBER in improving economic efficiency in the container shipping industry. [10]

[Total: 30]

Question 2: Vietnam – A special place in Asia

Extract 5: Global Value Chains

Companies used to make things primarily in one country. That has all changed. Today, a single finished product often results from manufacturing and assembly in multiple countries, with each step in the process adding value to the end product. Through participation in global value chains (GVCs), the international fragmentation of production, countries can achieve higher productivity, increased job creation and economic growth. GVC-driven development allows countries to generate growth by moving to higher-value-added tasks and by embedding more technology and know-how in all their agriculture, manufacturing, and services production.

To reap the gains from value chain participation, countries must put in place the right kind of trade and investment policies. Countries will derive the greatest benefit by maximising the absorption potential of the domestic economy and by strengthening its linkages with GVCs. Finally, countries should identify measures that will complement their GVC strategies. These include a large scope from investment in education and vocational training to environment and urbanisation, from infrastructure building to labour market mobility.

Source: Adapted from https://www.worldbank.org/en/topic/global-value-chains, accessed on 30 July 2023

Table 2: Vietnam, selected economic indicators (2017 – 2021)

Vietnam	**2017**	**2018**	**2019**	**2020**	**2021**
Exports (constant 2015 US$) billions	227.1	254.9	270.8	281.8	320.8
Imports (constant 2015 US$) billions	226.6	248.3	260.4	268.9	311.5
Domestic Currency per U.S. Dollar, Average	22,370	22,602	23,050	23,208	23,159

Extract 6: The Economy that COVID-19 could not stop

In 2020, Vietnam's GDP rose by 2.9%, even as most countries recorded deep recessions because of the COVID-19 pandemic. Integration with global manufacturing has kept Vietnam's economy humming during the pandemic.

This performance hints at the real reason to be impressed by Vietnam. Its openness to trade and investment has made the country, with GDP per capita of a mere $2,800, an important link in supply chains and a remarkable expansion. It has been one of the five fastest-growing countries in the world over the past 30 years, beating its neighbours Malaysia, Thailand and Philippines hands down. For a start, even describing Vietnam as export-intensive does not do justice to just how much it sells abroad. Its goods trade exceeds 200% of GDP. It is not just the level of exports but the nature of the exporters that makes Vietnam different. Indeed, its deep connection to global supply chains and high levels of foreign investment make it seem more like Singapore. Since 1990 Vietnam has received average foreign-direct-investment inflows worth 6% of GDP each year, more than twice the global level—and far more than China or South Korea have ever recorded over a sustained period.

As the rest of East Asia developed and wages there rose, global manufacturers were also lured by Vietnam's low labour costs and stable exchange rate. That fuelled an export boom. In the past decade, exports by domestic firms have risen by 137%, while those by foreign-owned companies have surged by 422%. But the widening gap between foreign and domestic firms now poses a threat to Vietnam's expansion. Vietnam has become overwhelmingly dependent on investment and exports by foreign companies to sustain its rapid growth, whereas domestic firms have underperformed.

To fire up the private sector, the government wants to nurture national champions, the equivalent of South Korea's *chaebol* that operate in a variety of sectors. This is so as developing national champions and climbing the global value chain are keys to Vietnam's greater economic strength.

Source: Adapted from The Economist, 30 August 2021

Extract 7: 'Vietnamisation' push seeks to develop national champions

Vietnam's leaders, after decades in which they allowed foreign business to have the upper hand, are actively promoting Vietnamese companies and capital. The government gave a lot of financial incentives to foreign investors, like tax holidays, access to land, and other preferential treatment and resulted in crowding out some domestic investment which do not get access to such privileges.

Now Hanoi wants its own national champions like Samsung, the South Korean conglomerate that makes nearly two-thirds of its mobile phones at factories in northern Vietnam. The scale of Vietnam's industrial ambition is clear at companies like Vingroup, a private conglomerate which has over the past two years begun manufacturing cars and smartphones. Elsewhere Viettel, the state-owned mobile phone company, recently said it had become the sixth telecoms company in the world to develop 5G technology — faster than US telcos.

Source: Adapted from https://www-ft-com.ezp.lib.cam.ac.uk 18 February 2020

Extract 8: Vietnam's battle to climb the global value chain

Vietnam's success in attracting supply chain business -- and its failure to create its own domestic high-technology sector -- has created a dilemma for policymakers. The country added little value of its own to its exports and has no homegrown tech champions. According to a white paper published by the Ministry of Industry and Trade in 2019, Vietnam lagged most of its Asian neighbours in yardsticks such as trade in value added and manufacturing value added, which measure the contribution of the domestic economy to trade.

In previous decades, Asia's "tiger" economies demonstrated that such a journey could be made. South Korea, Taiwan and China all started from low-tech manufacturing and advanced steadily to cars, semiconductors, and robots. Indeed, Vietnam has many of the advantages those countries did: a disciplined workforce, low costs and a state industrial policy. But Vietnam lacks some critical elements such as skills and good infrastructure.

If Vietnam does not upgrade to complex products, it risks a vicious cycle of technological decline, environmental pollution, low labour productivity, high energy consumption and low efficiency. The Vietnamese economy more than doubled in size from 2010 to 2020, according to the World Bank.

But the country has a limited window to take advantage of the explosive growth. "The low-hanging fruit of industrialisation is to capitalise on your endowments, which is cheap labour, that is set to disappear " Natixis economist Trinh Nguyen said.

In other words, if wages increase, companies that currently find Vietnam hospitable might eventually leave for cheaper countries like neighbouring Cambodia. The supply chain industry is fraught with politics that makes investments particularly unstable: Companies might also be drawn away by their own government's homecoming policies (Japan), or by the desire to "nearshore" next to big markets like Latin America or Africa. Other risks include inbound investment that is low-quality or creates pollution, raising concerns on sustainability. Furthermore, technological advancements can cause greater inequality, widening the urban-rural divide.

In its pitch to investors, Vietnam waves single-party stability as well as free trade agreements, shipping lanes and low costs. But it lacks something like a Taiwanese high-value national champion in the vein of Acer, and high-skilled labour to power such corporations. As with much of the economy, the solution is a delicate balancing act: More training will bring these skills but also push up wage costs, which will encourage companies to decamp to cheaper shores.

Source: Adapted from https://asia.nikkei.com/ 21 September 2022

Questions

(a) With reference to Table 2:

(i) State what happened to the exchange rate of the Vietnam's currency against the U.S. dollar between 2017 to 2021. [1]

(ii) Explain how the change in the value of Vietnam's currency affects Vietnam's trade balance as shown in Table 2. [3]

(b) Explain how the current account balance of Vietnam is likely to be affected by an increase in Foreign Direct Investment (FDI) inflow in the long run. [4]

(c) **(i)** With reference to Extract 6 and 8, explain **two** reasons why global manufacturing firms are moving their production to Vietnam. [4]

(ii) Discuss whether inflow of Foreign Direct Investment (FDI) improves living standards in Vietnam. [8]

(d) The lack of national champions and skilled labour are deterring Vietnam from achieving greater economic strength. In view of these challenges, discuss the policies that the Vietnamese government could implement to achieve sustained economic growth in the long term.

[10]

[Total: 30]

– End of Paper –