

Trade war seen as significant as emission cuts and digitalisation push

As the US proves determined to make China trade on a level playing field, a long-term trade spat will ensue. In the short term, carriers need to prepare for the absence of the traditional summer-autumn peak season on the transpacific trade. In the mid-term, orders for more ultra-large containerships will be debatable, while in the longer term, shifting trade patterns will lead to investment in new trades in which returns are not yet predictable

21 May 2019 **OPINION**



Cichen Shen cichen.shen@informa.com

As the US-China trade conflict appears to be moving into a longstanding wrestling match between the nations, its fallout on the world economy and trade will have a profound impact on shipping



WHEN MR TRUMP ARRIVED AT THE WHITE HOUSE THREE YEARS AGO, MANY UNDERESTIMATED THE TRADE DISPUTE HE MIGHT HAVE WITH CHINA AND WHETHER HE WOULD REALLY PURSUE HIS ELECTION PROMISE TO TRADE ON A LEVEL PLAYING FIELD.

THE trade war between the US and China is escalating.

After the latest exchange of tariffs, President Donald Trump targeted Huawei by banning its US suppliers, including microchip makers, to do business with the Chinese telecommunications giant.

And when his Chinese counterpart Xi Jinping visited a domestic plant that processes rare earths, which are key raw materials used for making computer chips and other hi-tech equipment. Speculation has been fuelled that Beijing could halt its exports of the strategic materials to US in a tit for tat battle.

While liner shipping companies have felt the ruption some impacts are more immediate. For example, there probably will not be the traditional summer-autumn peak season this year on transpacific trade.

Hit with a double whammy — increased tariffs and possible frontloading used by US importers to avoid the planned 25% levies on the remaining \$325bn of Chinese goods — cargo traffic will be disrupted and carriers will have to adjust their services urgently. If transpacific volume is dampened later this year, some large vessels on those routes may be forced to join the Asia-Europe trade, where oversupply of ships remains a big concern. The burgeoning confrontation could also affect ordering plans for megaships.

Cosco Shipping last week named its newest ultra-large containership, the 20,000 teu boxship *Aquarius*. It will have 22 vessels of this class in operation by the end of this year, or 28 if the six units owned by Orient Overseas Container Line are considered.

Executives from the Chinese conglomerate suggested they still lacked five to six units to complete three loops consisting of a homogeneous 20,000-teu class fleet on Asia-Europe trade. There have been talks that the state-owned owner is pondering orders for the type of newbuildings.

But an all-out trade war, whose odds seem getting bigger, may well slow, if not halt, the decision-making processes. Yu Zenggang, a group vice-president of Cosco Shipping, surprisingly expressed his reservation about the ULCs in a port conference in Guangzhou earlier this month.

He said it was expected that more shipping companies would slow down the development of the large vessels.

In the longer term, the expected shifting of supply chain from China into its less-expensive neighboring countries, accelerated by the Sino-US trade dispute, appears encouraging carriers to invest more in intra-Asia trade.

By the end of April, Cosco Shipping had devoted 262,070 teu of fleet capacity to this market as the largest player, up by 10% compared with the January tally, according to data composed by the research unit of intra-Asia focused carrier SITC.

The runner-up, Maersk-owned Sealand, boosted its capacity by 27.7% to 261,213 teu during the same period. OOCL, ranking in third, grew its fleet by 11% to 213,923 teu. It remains to be seen whether the expansion would be paid out, however.

The intra-Asia market has for many years been one of the most competitive and challenging battlefields for carriers to make profits. And there is no promise that the inter-regional trade will be immune if the global economic outlook is being dragged down by the trade dispute that “is hurting manufacturing, disrupting global value chains and generating significant uncertainty that is weighing on investment decisions”, as stated in OCED’s latest report.

When Mr Trump arrived at the White House three years ago, many observers — including the shipping sector — underestimated his seriousness about initiating a trade storm on a scale to match his 2016 promise to the American electorate.

Now it seems the storm has not only arrived but is likely to linger and develop into a longstanding wrestling match between the world’s two largest economies. The fight will have an impact on shipping that is no less significant than the industry’s emission reduction targets and path to digitalisation.