

Maritime Summary Note n°240 – April 2022

« International relations, economy and shipping »

The world had been living for two years in the unique atmosphere of the health crisis and was hoping for its conclusion in 2022. A return to normal life seemed to lie ahead, notwithstanding the latent threat of new variants. Yet, in February 2022, war made its return to Europe. The Russian aggression against Ukraine is a human tragedy that legitimately shocks Europe and heavily disrupts the economy. In these final days of March, it is impossible to know what Ukraine's destiny will be; conversely, the economic consequences are swiftly legible for both the invaded nation and the aggressor country. Maritime transport is already affected through agricultural commodities and energy flows. Beyond this conflict lies a stark reminder of the geopolitical complexity characterizing the dawn of the 21st century.

The binary interpretation of oppositions between blocs has vanished in favor of multilateralism, but also in favor of an accumulation of conflicts of all types (repressive dictatorships, state implosions, neighborhood conflicts, regional rivalries). Analytical frameworks are complex in the face of this entanglement of tensions. Concurrently, the world has never been so economically intertwined. It is the very hallmark of globalization to connect all States within bonds of interdependence. The core wager of the Europeans is precisely to demonstrate to Moscow that its grip on Ukraine will carry a heavy economic price, while admitting that this will not be neutral for themselves either. Maritime transport, as the prime instrument of globalization, is therefore directly affected by the clashes of contemporary geopolitics. This section provides a retrospective look at 20 years of globalization and world disorder.

The 2000s

If we consider that the year 2000 opened the new century from an economic standpoint, it began poorly. Indeed, on March 13, 2000, the collapse of the Nasdaq signaled the end of a stock market bubble centered around new technologies, triggering a minor recession that predominantly affected the United States. For maritime transport, this translated into a period of stagnating activity in 2001 (+0.7%). The year turned tragic with September 11, 2001, and the terrible terrorist attacks against the United States. In geopolitics, this prompted a powerful reaction against Islamism, led by the Anglo-American intervention against the Taliban regime in Afghanistan. With George W. Bush's second term, the policy of the neoconservatives dragged a number of countries into war against Iraq in March 2003. The American presence was destined to last until December 2011, carrying the economic consequence of Iraq's return to the petroleum economy.

With an economic crisis and a new conflict in the Middle East, the decade of the 2000s was evidently off to a bad start. Yet, a fundamental underlying movement was underway. Indeed, since the mid-1980s, industrial offshoring toward the open economies of the Far East had been fueling the rapid growth of containerization. This phenomenon had even triggered an overheating of the markets in 1997–1998, famously labeled as the "Asian financial crisis." A historical turning point was reached on December 11, 2001, with China's accession to the WTO, following fifteen years of protracted negotiations with the United States and Europe. Western nations viewed this as the opening of a gargantuan market. Admittedly, *Made in China* products could also enter and flood retail stores, but this initially occurred to the benefit of consumers' purchasing power.

It is undeniable that the jobs lost to offshoring carried a heavy social cost within developed nations, yet their economies enjoyed a relative prosperity at the time, favored by the low interest rates maintained by central banks. On both shores of the Atlantic, this fueled real estate and stock markets, while easy credit sustained intense household consumption. Since 2004, Central European countries entered the EU and, through localized offshoring, began participating in the continental dynamic.

This economic euphoria carried immediate maritime consequences: global freight volumes surged from 6.3 billion tonnes in 2000 to 8.5 billion tonnes in 2007. Container flows originating from the Far East

multiplied rapidly, notably because China was emerging as the "workshop of the world," while importing in return increasing volumes of energy, mining, and agricultural raw materials. Economic globalization was locking itself into place, with maritime transport serving as its primary engine. Nonetheless, merchant fleets had been built during the 1990s within a context of slow growth; by 2006 and 2007, vessels were severely lacking, and charter rates skyrocketed. The maritime world was experiencing its own bubble of unmatched prosperity.

Notwithstanding the American entanglement in Iraq, geopolitics did not pose too many hurdles during the 2000s, as the West failed to perceive that its daily imports were economically feeding a future giant. China's heavy growth was still viewed as a promising future consumer market rather than a structural threat. However, in the short term the threat proved internal for Western nations, as the economic machine seized up at the very heart of the world's leading economy. In 2007, the first warning signs emerged from the real estate sector with the subprime mortgage crisis, which mutated into a systemic financial and stock market crash on September 15, 2008, with the collapse of the Lehman Brothers investment bank. The resulting economic crisis was severe, triggering sharp contractions in GDP growth in 2009 of a magnitude not seen in decades. This also dealt a sudden blow to maritime transport, which contracted by -4.1%. However, the economic crash was swiftly erased, and by 2010, the situation rebounded sharply (+9.7%) for both the wider economy and the shipping industry.

The 2010s

The new decade opened with a euro-dollar exchange rate that favored the European currency, but alongside relatively high crude oil prices. To these cyclical conditions was added a crucial structural factor: the easy credit machine was no longer viable, placing a natural boundary on hyper-consumption. On the other hand, the *Made in China* dynamic continued to drive retail prices down, fueling container flows which pursued their steady expansion. Globalization was able to continue its trajectory, reflected across both dry and liquid bulk trades. In 2011, global iron ore and coal trades each reached the milestone of 1 billion tonnes, heavily propelled by Chinese industrial demand.

At the dawn of the 2010s, Barack Obama entered his first presidential term and extricated the country from the Iraqi entanglement (though not from Afghanistan). The American economy maintained a steady growth path throughout the decade, hovering around +2%. The rapid emergence after 2010 of unconventional hydrocarbons (shale gas and tight oil) drove domestic energy costs down. The volume of laden container imports perfectly symbolized this American economic health, swelling from 15.4 million TEUs in 2010 to 21.8 million TEUs in 2018.

For Europe, the scenario was exactly the opposite. The 2008 crisis experienced a protracted extension; for sovereign States, the warning signs emerged from Ireland, Portugal, and Spain in 2010, but by 2011, it was Greece that triggered what would be labeled the sovereign debt crisis. Broadly speaking, much like households, States cannot live indefinitely on credit. To combat the crisis shaking the Eurozone—which turned negative in 2021 and remained stagnant in 2013—the European Central Bank, instigated by Northern European nations, implemented a strict policy of fiscal austerity. This harsh medicine proved largely ineffective, and European growth exhibited signs of severe weakness. Europe was gridlocked in crisis, a stagnation once again demonstrated by a sharp contraction in Asian container import volumes in 2012.

Meanwhile, the world experienced substantial upheavals. In 2011, the Arab Spring brought down regimes in Tunisia and Egypt. Libya, Yemen, and Syria descended into civil war. Worse, in northern Iraq, the territorial stronghold of Daesh's radical and violent Islamism was organized, hitting the rest of the world through terrorism. A Western military effort was required to support the forces opposing Daesh and eradicate the phenomenon—which nevertheless remained without severe economic consequences, as Iraq's petroleum potential was not overly affected.

In the middle of the decade, the oil market experienced a peculiar movement. The Persian Gulf monarchies grew increasingly concerned about the expansion of American shale oil, which was only viable above a certain market price threshold. Aided by the return of heavy production from Iraq and Iran (following the temporary easing of the nuclear standoff), OPEC surged its production, and oil prices collapsed to an exceptionally low level in February 2016¹. As with every collapse in crude prices, oil

¹ The Fukushima nuclear disaster altered the gas market by polarizing the LNG market toward Japan for several years, alongside a robust demand from alternative Asian nations.

tanker shipping profited from the low rates, fueled by speculative movements that triggered intense cargo trading and floating storage operations.

The drop in oil prices was also excellent news for Europe², especially since the European Central Bank's shift in policy brought a return to rock-bottom benchmark interest rates. The European recovery was able to gain momentum, with the Eurozone returning to growth after 2015. The only shadow on the horizon was the British Brexit vote in June 2016; the EU was destined to lose, in the long run, one of its primary economic architectures.

This European economic brightening triggered a convergence of the euro and the dollar in 2015, which in turn fed a slight contraction in European imports. Within a context of fierce price wars among ocean carriers, this dip caused container freight rates to crash. A minor container shipping crisis ensued, which ultimately served to absorb the chronic overcapacity that had persisted since 2008. Indeed, far from adapting to a less exponential demand shock after the 2008–2009 crisis, container shipping supply had continued to expand, and over-expand, sustained by numerous newbuilding orders and a relentless race toward gigantism. The container crisis of 2016 did not reduce the number of active vessels, but it drastically consolidated the number of major ocean carriers through the historic bankruptcy of Hanjin Shipping and a massive wave of mergers and acquisitions. The result was a profound consolidation of the container sector around a handful of European giants (Maersk, MSC, CMA CGM, Hapag-Lloyd) and Asian leaders (COSCO, ONE, Evergreen, Hyundai Merchant Marine).

In terms of geopolitics, during the 2010s, each of the world's major powers followed its own distinct dynamic. For Vladimir Putin's Russia, this manifested as a primary demonstration of force with the 2014 forcible annexation of Ukrainian Crimea and its military backing of separatism within the border regions of the Donbas. Elsewhere, supported by democratic ballots, leaders with highly radical backgrounds asserted their power (Erdoğan in Turkey, Bolsonaro in Brazil, Modi in India). This multipolar world grew inherently more challenging due to the emergence of tough nationalist leaders whose countries, ironically, benefited fully from the globalized economy. The sole nation excluded from this dynamic was Iran, which paid the price of American sanctions levied against its nuclear ambitions, a standoff that severely disrupted maritime shipping as seen in 2018.

Concurrently, China pursued its upward trajectory as a mega-economy. Its containers distributed commodities of every conceivable kind, while its industrial machine absorbed unprecedented volumes of iron ore, nickel, bauxite, coal, crude oil, gas, and soy. Leading the nation since 2013, Xi Jinping asserted China as an undisputed economic and political superpower. While the regime proved highly aggressive in its desire to seize control over the South China Sea, on the international stage it rolled out the New Silk Roads (Belt and Road Initiative) concept—a form of infrastructure-driven economic diplomacy. This centered in part on constructing new ports which, when coupled with the corporate muscle of its two maritime conglomerates (COSCO Shipping and China Merchants), demonstrated that China was also developing into a massive commercial maritime power, commanding the second-largest merchant fleet in the world behind Greece.

From health crisis to wartime economy

During the second half of the 2010s, China's rising power did not prevent a broader slowing down of global economic growth. Admittedly, manufactured goods flooded global markets, yet the consensus emerged that globalization was reaching structural maturity. The West could no longer expand its consumption, emerging nations lacked reserves for hyper-development, and commodity-producing countries remained overly dependent on volatile market cycles. Consequently, global maritime trade slowed down, posting a growth of only +0.5% in 2019, even though it had doubled in twenty years to reach the milestone of 11 billion tonnes (often estimated in cumulative volume).

In the autumn of 2016, a major surprise originated from the United States. The election of Donald Trump signaled the return of conservative America, but backed by a fierce determination to combat one of the structural vulnerabilities of the US economy: the massive invasion of Chinese goods. In practice, the Trump administration's trade war successfully contracted the volume of laden container imports from China, dropping from 14 million to 13 million TEUs in 2019, to the direct benefit of Southeast Asian nations and Mexico.

² The weakening of exporters also translates into a decline in their demand from developed economies.

Nevertheless, in 2018 and 2019, globalization could appear threatened by American economic nationalism; yet, while the United States imports heavily, it also exports grains and energy products, to speak only of physical commodities. This is the very principle of a globalized world: multi-directional flows driven by localized comparative advantages (raw materials, technologies, labor costs). However, the United States demonstrates that within a democracy, citizens can actively express their political opinions. Authoritarian regimes do not face this constraint but are bound by an absolute obligation of prosperity—China first and foremost.

In 2020, a new decade loomed. It appeared evident that globalization was lacking its former vitality. The world wondered whether Donald Trump would retain power after five years of media frenzy, backed by a still-resilient American economy. Europe was experiencing modest growth—which was already satisfying—even as questions mounted regarding the long-term impact of Brexit. Since 2012, Chinese growth had slipped below the 8% threshold. Finally, oil prices hovering around \$70 per barrel satisfied both importers and exporters.

An unpredictable event struck during the winter of 2020 with the emergence of a disease as hazardous as it was transmissible. Covid-19 triggered one of the most severe health crises in human history. The near-global lockdown fueled the expectation of a massive economic depression. Oil prices collapsed, creating a temporary speculative bubble around specific maritime shipping sectors. Container shipping actors anticipated a severe contraction in demand, fearing the pandemic's impact on consumer lifestyles, particularly in Western nations. Yet, an unthinkable phenomenon occurred. Deprived of leisure activities and vacations—and most intensely so on the American side—consumers shifted their capital toward manufactured goods. The volume of imported containers expanded in the United States in 2020, and surged spectacularly in 2021 (+21%). While this trend was less pronounced in Europe (+10%), containerization emerged as the supreme winner of the health crisis. Conversely, industrial-linked bulk trades suffered from the economic slowdown, while oil shipping was penalized by the contraction of global transport. Liquefied natural gas benefited from a demand shock centered predominantly in Asia. There was no drastically different "world after" by the dawn of 2022. Globalization binds China and the United States together just as tightly as geopolitics pits them against one another. The Pacific arena entangles interests and oppositions (as illustrated by the localized Australia–China trade dispute). Europe stands as an economic superpower but remains an assembly of sovereign States with divergent national interests. Russia and Turkey act as unique, complex neighbors, while the Middle East (Israel, Egypt, the Gulf monarchies, Iran) remains structurally volatile. South Africa, Brazil, India, and Indonesia are nations that carry significant weight on the global political and economic chessboard. Our contemporary world closely resembles that of the 19th century, characterized by powers of varying degrees of importance and rivalries, yet all participating in shared cycles of trade and interdependence. Consequently, the Russian aggression against Ukraine represents a major wrench in the gears (*grain de sable*) of globalization. It severely disrupts international trade. Between the closure of Ukraine's bombarded ports and the sanctions threatening Russian vessels and commodities, the war carries critical maritime importance. Europe had wagered heavily on its interdependence with Russia, receiving from it half of its crude oil and refined products, alongside 15% of its marine LNG (and 37% of its pipeline-bound natural gas). Furthermore, numerous nations are wondering how agricultural markets will evolve in terms of both prices and volumes.

This marks the return of large-scale warfare and sweeping economic sanctions, targeted not against a minor state (such as Serbia, Syria, or Libya) but against a major political superpower and a pivotal actor in the world's energy and food supply architectures. Vladimir Putin crossed a geopolitical Rubicon within our globalized world: one does not typically jeopardize critical economic interests for purely territorial or political ambitions. Globalization relies on a fragile equilibrium of interactions. Neither the conflicts of the Middle East nor the tensions of the Far East had ever fundamentally shattered this balance. Russia has done so, ensuring that the year 2022 will stand out as deeply anomalous and unique.

Paul TOURET

English translation generated by Gemini AI