

Resilience and Challenges in the Maritime Sector: A Delicate Equilibrium in the Face of Geopolitical Tensions

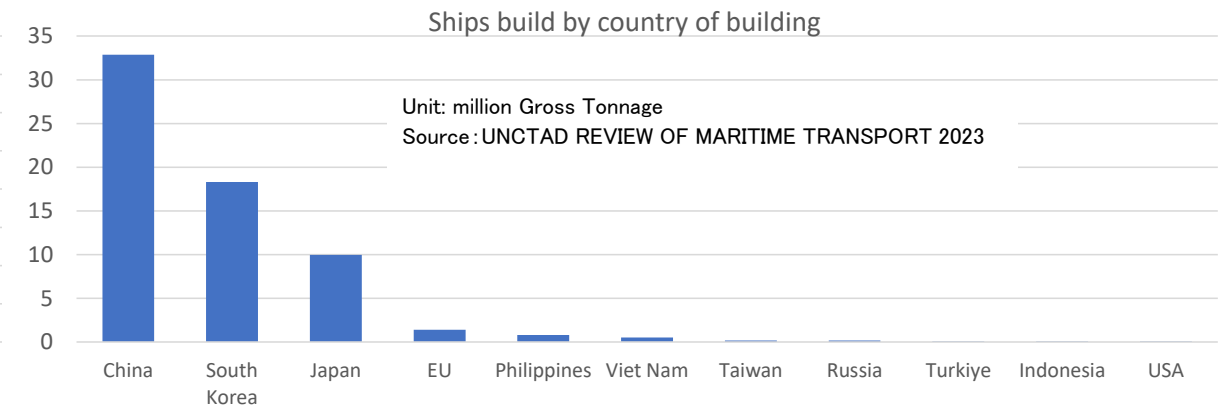
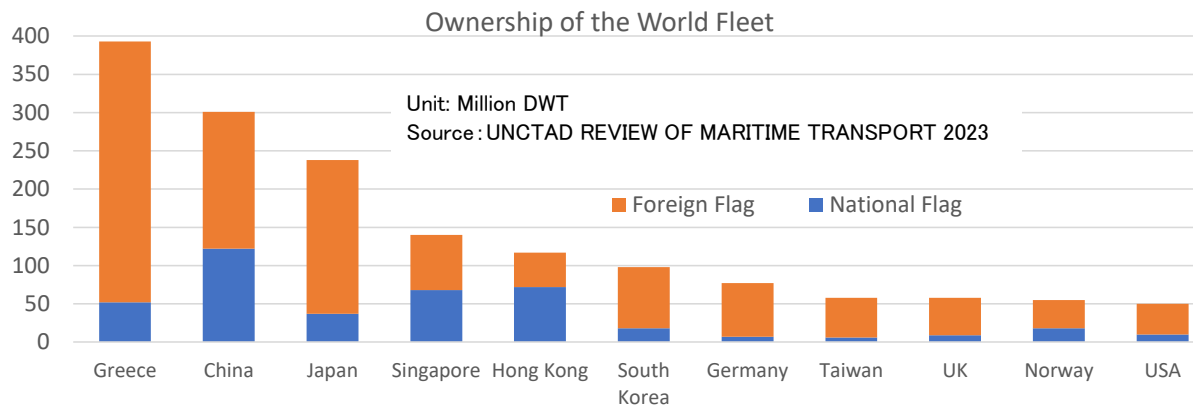
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China's Dominance in the Maritime Sector



- ▶ China holds a significant share in shipbuilding, maritime trade volume and vessel ownership,.
- ▶ While Western influence remains strong on main container routes, the advantage is offset by China's high share in other segments - intra-Asia container trade, bulk carriers, and tanker.
- ▶ This dominance fuels fears that China could weaponize its maritime presence under geopolitical tensions.
- ▶ However, Western bloc, especially in Europe, still maintain a stronghold in maritime services such as marine insurance, which provides leverage for intervention in the global maritime sector.



- ▶ Current global shipping has demonstrated high resilience in providing transportation capacity under geopolitical risks.
- ▶ During coincident disruptions at both the Suez Canal and the Panama Canal from late 2023 to early 2024, container freight rates increased, but aside from initial confusion, there were generally no instances where shippers were unable to ship containers.
- ▶ Even with sanctions on Russian oil exports due to the invasion of Ukraine, exports from Russia were not significantly suppressed.
- ▶ During the COVID-19 pandemic, there were continuous instances in container transportation where not only freight rates soared but also space could not be secured. However, this was due to congestion and reduced work efficiency at ports and warehouses in the US, not due to shipping.

This Resilience Stems from Being an Open, Single Global Market



- ▶ The participation of numerous players with diverse motivations within a single market under consistent rules allows effective redistribution of capacity across routes and regions, mitigating the impact of geopolitical events.
- ▶ The rules of international shipping are simple, apart from the principle of freedom of navigation and safety-related rules centered around the IMO and are based on the pursuit of profits by each shipping company. That is why a single rule and a single market are established.
- ▶ If the unified global market splits, it will not only lead to volatile freight rates, operational disruptions, reduced capacity to address safety and decarbonization efforts, but also diminish the West's geopolitical influence exerted through maritime services.

China Largely Adheres to the Unified Global Shipping Market



- ▶ COSCO SHIPPING, a major Chinese container carrier, does not navigate through the Suez Canal.
- ▶ Chinese tankers trading with Russia stays outside of the formal global shipping market.
- ▶ Rather, sanctions by the West against countries like Russia and Iran are undermining the single global market nature of shipping at present.

Weaponization of Shipping Will Fragment the Global Market



- ▶ China's presence in the maritime sector is too substantial to be contained. China can also quickly replicate the maritime services currently dominated by the West.
- ▶ The West should abandon the notion of using maritime logistics as a weapon and instead focus on deterring China from doing so.
- ▶ To achieve this, promoting the benefits of a unified market with unified rules in areas such as safety and decarbonization, and forming a global consensus that includes emerging economies, is essential.

Preparing for Scenarios Involving Military Security Is Crucial



- ▶ To deter China from weaponizing shipping, it is also important to ensure that attempts at weaponization do not have an effect.
- ▶ Specifically, it is crucial to establish a system where a country or alliance can maintain the maritime transport capacity necessary for survival even if China stops access to maritime services.
- ▶ While it is difficult for any single country, including the U.S., to establish such a system, collaboration among the U.S., Europe, Japan, and South Korea can achieve this.
- ▶ However, security discussions in any country tend to stimulate economic nationalism, potentially hindering mutual cooperation conducted by private companies as a business.
- ▶ The key is how to create institutional safeguards to protect private companies' efforts from economic nationalism.

Defining Which Supply Chains Need to Be Protected is Also Crucial



- ▶ During the Cold War, securing energy and grain was the priority, but today, general merchandise (e.g., containerized cargo) has become vital.
- ▶ China is directly or indirectly the primary supplier for most of these goods.
- ▶ It is critical to consider the supplier's role when discussing supply chains, not just the transportation segment.



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