Southampton SOLENT University

# Global Maritime Weekly Digest

**Publishing Director: Prof Minghua Zhao** **Editor: Richard Scott**

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*The **Global Maritime Weekly Digest**, based at **Southampton SOLENT University**, provides a regular flow of maritime news and analysis, of significance in a global context.*
*Topics covered include shipping fleets and management, seaborne trade, ports, shipbuilding, ship recycling, maritime policy and regulations, and seafarers' labour.*

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## *Editorial comments*

- A new study examines ***alternative fuels options*** for ship propulsion, looking at LNG, LPG, methanol, biofuels, hydrogen, battery systems, fuel cell systems and wind-assisted propulsion (item 2). Aspects discussed including environmental compatibility, availability, fuel costs and international rules.
- In the past few years a number of ***changes in shipping finance*** have evolved and the sector has moved away from its traditional reliance on bank loans and shipowner's equity. As banks retreated, capital leases became much more prominent, while high yield bonds, institutional term loans and preferred equity also featured (item 4).
- With some provisos, ***prospects for world economic growth*** in 2018 and into next year are still looking good (item 6), which is encouraging for maritime activities. As emphasised in the IMF's latest appraisal there are several risks to the outlook and, in particular, the recent round of international trade restrictions and retaliation threatens to undermine the trend.
- According to a ***broad overview of global shipping markets***, an improving picture during the past six months has led to today's more positive sentiment, coupled with signs of further strengthening in the period ahead (item 5). Currently the tanker market is not sharing in this mostly upbeat impression.
- Analysis of projects embraced by ***China's Belt & Road Initiative*** has noted that difficulties are being experienced in several countries where major infrastructure building has begun, or is planned to start soon (item 7). Some of these problems have been well-publicised.

**Richard Scott** MA MCIT FICS
editor (email: bulkshipan@aol.com)

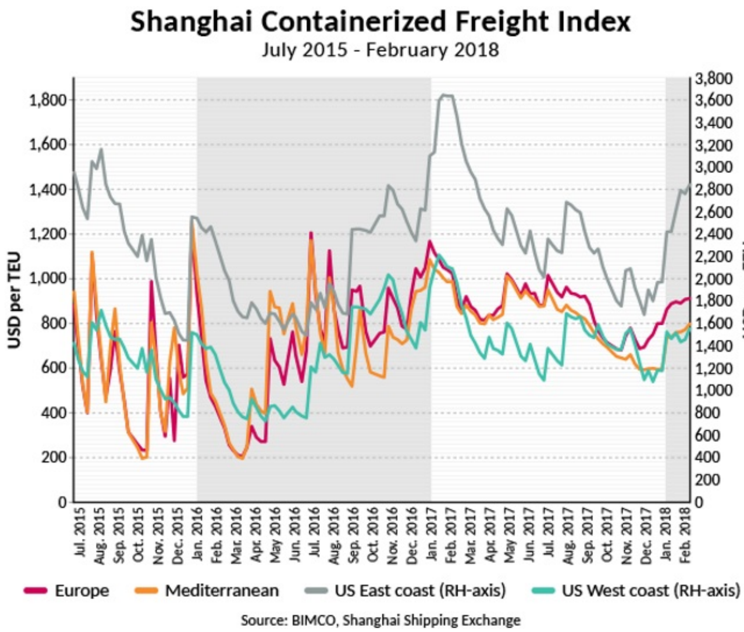
(1) BIMCO, 16 April 2018

# Container Shipping: A Year Where Fleet Growth And Demand Growth Are The Same

What will the future bring? Overall demand growth is expected to be lower than in 2017, but still high enough to potentially improve the fundamental market balance.

**Demand**

Having experienced falling freight rates from August to year-end in 2017, most liner companies were successful in pushing rates higher in early January 2018. Remarkably, most of them managed to hold onto most of the gains they achieved, considering October and November were challenging in terms of very low demand growth. The weak demand came from the Far East to Europe trade, and on the Intra-Asian transport.




Liners were the most successful at maintaining higher freight rates on the US-bound trade lanes, both east and west coast. On the other high-volume trades into the Mediterranean and North Europe, the announced General Rate Increases (GRI) lifted freight rates too, but to a smaller extent.

Liners always push for higher freight rates going into January. But, as fleet growth had overtaken demand by a large margin in the latter third of 2017, rates had been falling for six months going into January. Nevertheless, exports ahead of Chinese New Year in mid-February 2018, boosted demand to such an extent that rates into the US East Coast went up at the start of January 2018 and kept rising.

Most containers are moved on shorter hauls intra-Asia. For the full year of 2017, data provider CTS counted 40.9m TEU being transported between different Asian ports (+4.3% Y/Y). On the most important long-haul trades, CTS counted 18.5m TEU going from the Far East into North America (+7.3% Y/Y) and 15.8m TEU on the routes from the Far East into Europe (+3.7% Y/Y).

Demand also grew on the Far East to Sub-Saharan Africa trades, +5.9% for the full year of 2017 (2.8m TEU). Another "lower volume trade" that grew strongly in 2017 was the Far East to South and Central America trade lanes – shipping 3.6m TEU during 2017, up by 10.7% on last year.

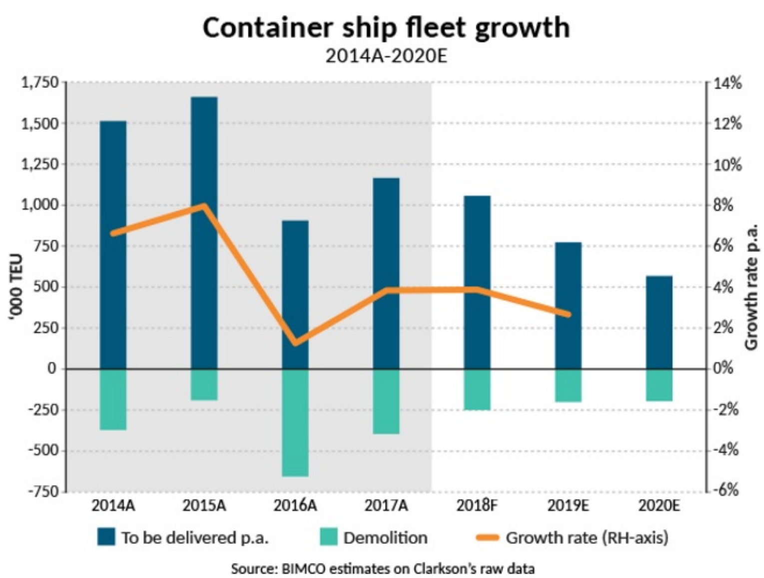
Either way you look at it 2017 was a strong year.

We always focus a lot on the front hauls – for good reason. Cargoes on the back hauls often only provide a bit of revenue to cover some of the costs of bringing the containership back to the Far East for another profitable pay load.

On 1 January 2018, a Chinese ban on specific imports came into effect. The ban covers the import of 24 types of waste – including waste paper and waste plastics. Commodity categories like “ores and scrap”, “pulp & waste paper” and “plastics in primary forms” often feature now amongst the top 5 commodities on many trades, with Asian-bound trades dominating.
At least for a while, the ban has turned the attention of industry and shippers back to the back-haul cargoes.
On the trade from North America to Asia, the number one commodity – by a margin – is “pulp & waste paper” accounting for 1.46m TEU in 2017 (source: MDST), with an estimated global total of 4-5m TEU that could be affected by the Chinese ban (source: Drewry). The volumes are not expected to be an outright loss. Much of the affected cargo seems to be heading for Indonesia, Taiwan and Vietnam. However, not all this type of cargo can expect to land there, as the now “unavailable” waste handling capacity in China is much bigger than the other waste handling facilities in the Far East combined.

**Supply**

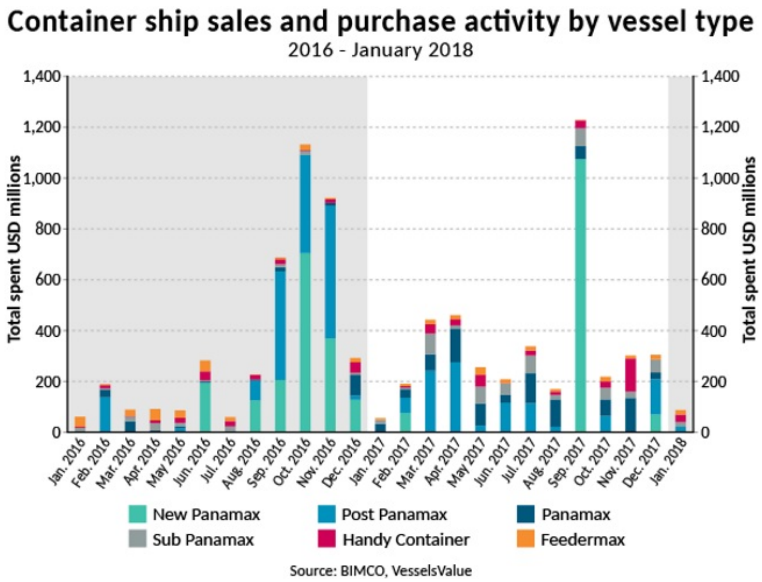
The containership fleet has already expanded by 1.2% in the first month of 2018 – equal to the entire fleet expansion of 2016.
A flurry of new ships has been delivered in January. Not since July 2010 has such a massive inflow of capacity taken place in one month – 254,173 TEU. This includes plenty of feeder ships but also five ultra-large 20,000+ TEU ships. On the demolition side, three ships have been removed (a 320 TEU ship built in 1981, a 976 TEU ship built in 1990 and a 3,802 TEU ship built in 1998).
2017 saw a total of 398,000 TEU demolished, a level which is bound to decrease in 2018. BIMCO expects that 250,000 TEU will leave the fleet as the year progresses. Bringing a fleet growth of 3.9% as the newbuilt delivery is forecast to reach 1.05m TEU.



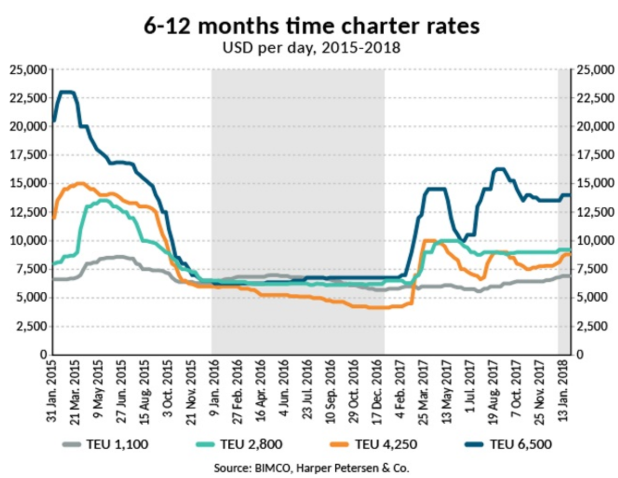

A is actual. F is forecast. E is estimate which will change if new orders are placed. The supply growth for 2018-2020 contains existing orders only and is estimated under the assumptions that the scheduled deliveries fall short by 10% due to various reasons and 25% of the remaining vessels on order are delayed/postponed.

In 2018, the focus will be on the deployment of ultra-large containerships. 53 ships larger than 13,500 TEU are scheduled for delivery – we expect around 40 of them to be launched. In 2017, 55 ships of the same size were scheduled for delivery but only 43 were delivered.
New orders are also being placed at an increasing pace. The break in ordering from December 2015 through August 2017 was one to cherish.
The idle containership fleet has almost disappeared. Alphaliner counts only 65 ships on their list with a combined capacity of 191,441 TEU as of 5 February 2018. In real terms, this means that nominal fleet growth will have a bigger effect on the market balance, as the temporary idling and re-activation of ships becomes negligible.
Owners and investors were busy in the second-hand market in 2017. In fact, it was the busiest year on record. 297 ships changed hands, valued at USD 4,178m (source: VesselsValue). Panamax ships were

in demand, more due to price than anything else – with 93 ships changing hands in total. Purchasing prices were equal to the demolition values of many of the ships, meaning there was little downside risk from the purchase. Since mid-2017 both demolition prices and second-hand values have gone up.
It all depends on timing – a 2009-built panamax ship (4,275 TEU) was valued at USD 13.7m in July 2016, USD 5.6m in January 2017 and USD 10.9m in January 2018. At the same time, the demolition value of the same ship was USD 4.6m, USD 5.6m and USD 8.1m. Meaning that deals done at January 2017 prices were equal to demolition values.




**Outlook**
The fact that demand growth slowed down towards the end of 2017 is also clear from the development in time charter rates, which peaked twice last year, around April/May and around mid-September 2017. Nevertheless, the upward trend was an encouraging one, as the dip following the second peak was not as low as the previous dip. For a 6,500 TEU ship, that development took time charter rates from USD 14,500 per day in April 2017, down to USD 10,000 per day in June and back up to USD 16,250 per day in September 2017. By early-February the rate was at USD 14,000 per day again. In all aspects time charter rates were mostly lossmaking – but 2017 did deliver considerably higher rates in comparison to the absolute lows of 2016.




What will the future bring? Overall demand growth is expected to be lower than in 2017, but still high enough to potentially improve the fundamental market balance. BIMCO forecasts demand to grow by 4.0-

4.5% against a fleet growth of 3.9% in 2018. The IMF January update of its World Economic Outlook, significantly lifted expected GDP growth in advanced economies for 2018 and 2019, and growth in advanced economies is generally good for container shipping demand.
Watch out for the North American inbound loaded containers where we expect a change in 2018. We saw very strong growth in 2016 and 2017 for the US West Coast imports and in 2015 and 2017 for the US East Coast imports. We have yet to see the full effect of the elevated Bayonne Bridge allowing ultra-large containerships to pass and enter the New York/New Jersey (NYNJ) port. Loaded containerised imports into NYNJ were up by 6.0% for the full year of 2017 compared with the year before.
For the whole of the US East Coast in 2017, the amount of inbound loaded containers grew by 10.1%. It took the industry a while to embrace the expanded Panama Canal locks – but they are making use of them now. 2018 is likely to be the year where many container line networks calling the US East Coast will become fully up-scaled by deploying ultra large container ships.
Source: Peter Sand, Chief Shipping Analyst, BIMCO
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(2) Hellenic Shipping News, 18 April 2017

# DNV GL launches alternative fuels white paper

"The incoming International Maritime Organization (IMO) sulphur cap on emissions from shipping could have a significant effect on the maritime industry, and it has the potential to be a game changer for alternative fuels," says Trond Hodne, Senior Vice President, Sales & Marketing Director at DNV GL – Maritime. "Our new white paper is designed to set out the options for interested stakeholders and to offer a balanced assessment of the potential of these fuels and technologies going forward. We hope that by doing so we can add to the growing body of knowledge and enable investment decisions to be made with greater certainty and confidence."
The technologies and fuels considered in the white paper are many of the most commonly used in the shipping industry today: LNG, LPG, methanol, biofuel, hydrogen, battery systems, fuel cell systems, and wind-assisted propulsion. The white paper identifies and examines the factors that will affect the uptake and acceptance of alternative fuels and technologies in shipping, including: environmental compatibility, availability, fuel costs and the international rules within the IGF Code. Over the short term, the white paper foresees that the vast majority of conventionally fuelled vessels already in service will either switch to low sulphur conventional fuels, or implement a scrubber system while continuing to use heavy fuel oil (HFO).
For newbuilding vessels, the sulphur cap could be a major driver for alternative fuels, and DNV GL's Gerd Würsig, Business Director Alternative fuelled ships, at DNV GL – Maritime, believes that LNG is the prime contender among them: "LNG has already overcome the barriers related to international legislation and is available in sufficient quantities today to meet the requirements of the shipping industry for many years. It also fits within the trend of demands to lower emissions of $CO_2$, $NO_x$ and particulate matter. At the end of the day however, the best concept for a given application needs to be determined by the shipowner on a case-by-case basis, and at DNV GL we are ready to assist in finding the best solution."
Source: DNV GL
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(3) Hellenic Shipping News, 18 April 2018/ ICIS

# New LNG vessel deliveries could be delayed on long market

The number of new LNG carriers delivered to the market has soared this year, leaving the shipping industry to question whether last winter's rise in charter rates can be repeated in the coming years. Despite some companies agreeing in advance to delay the delivery of carriers to next year, 2018 is expected to become the busiest year on record for new LNG ship supply.
A total of 20 vessels have come to the market in the first quarter of this year. This is double what was delivered over the first quarter in the past three years, data collected by ICIS showed.

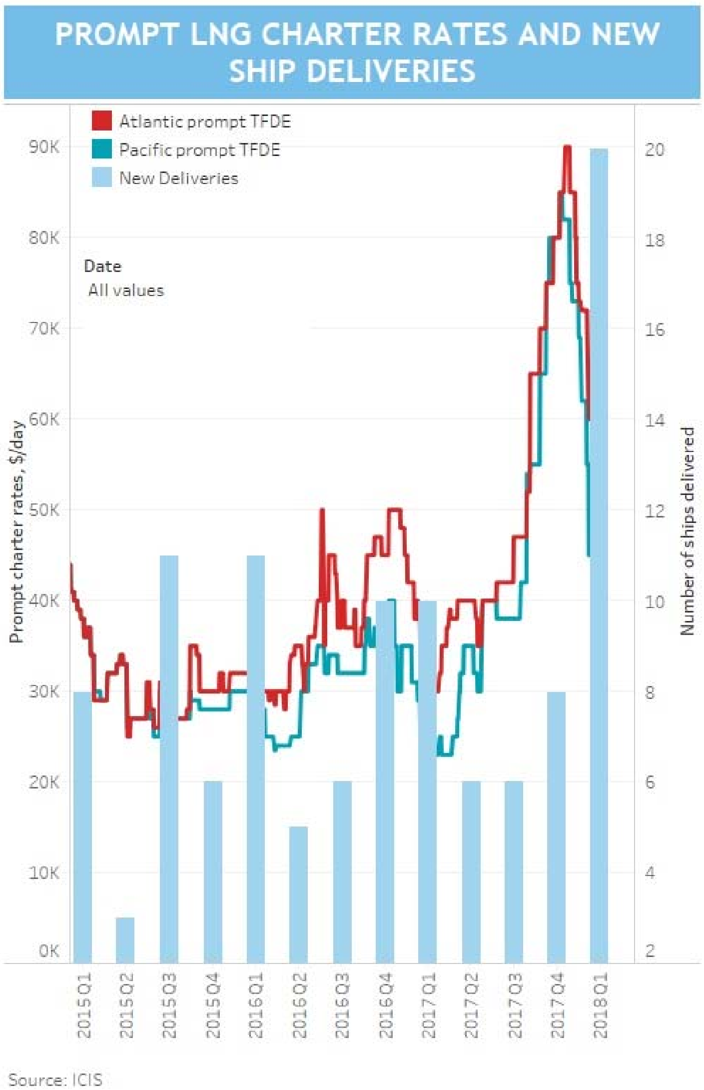
Out of 20 newly-delivered vessels, four were constructed in Japan, two in China, with the rest in South Korea.

**Delays to market**

Japanese utilities have asked yards to slow down deliveries so that vessels are delivered at the same time as when the new US LNG export plants, Freeport and Cameron, start production, according to sources at Asian and European ship owners.

At least one enquiry was made to a South Korean shipyard as well.

The delay would reduce the number of uncommitted vessels on the market that could be available for spot charters.




Up to five vessels have also been fixed on multi-month charters to bridge the gap with the project start-ups, according to fourth quarter 2017 results of ship owner Flex LNG published earlier this year.

Energy consultancy Wood Mackenzie believes that 61 vessels are currently scheduled for delivery in 2018.

Ship owners said that more than 10 of them will be delayed by as much as eight months, with deliveries starting from the end of this year.

But the market will also see some new ships arrive that were built in the past two years and have not yet been delivered.

"In recent years a lot of ships scheduled for delivery have been delayed due to overcapacity in the LNG shipping market and low charter rates," said Andrew Buckland, LNG shipping and trade principal analyst at Wood Mackenzie.
Out of 20 new ships delivered in the first quarter, three vessels were built in 2017.
These new deliveries may keep LNG charter rates depressed throughout 2018, despite the potential delay with the delivery of vessels for the Freeport and Cameron projects.
The bearish trend may also persist as some LNG production projects that have not yet made a final investment decision could already be in negotiations to order ships for their projects, according to a shipbroker.

**New orders pick up**

Orders for new LNG ships have picked up this year, partially reacting to high prompt charter rates this winter, which has given renewed confidence in the sector to ship owners, Buckland said.
"Last year, there were 19 orders overall, while we are already approaching this number this year," he said.
Samsung Heavy Industries said last week, referring to Clarksons Research, that 194 LNG carriers are to be ordered within the next five years, including 37 this year.
The construction of LNG vessels is also cheaper than before, with strong competition between the shipyards for new orders, according to a ship owner.
There is spare shipbuilding capacity in South Korea and China.
Expectations for next winter's charter rates are still strong among some ship owners, however. The new US LNG projects are expected to absorb ships from the market, with long-haul journeys supporting the rates.
"We expect that winter [shipping] demand will be strong this year and charterers will start thinking of shipping earlier in the year to catch lower rates," one ship owner said.
"We think that rates will go up in late summer and certainly in September."
Source: ICIS, By Ekaterina Kravtsova
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(4) Lloyd's List, 19 April 2018

# Five things to watch: Ship finance

*Today's capital structures are more complex than ever, driven by innovation or necessity. At the same time, new financiers are disrupting the market for ship lending. Will all this lead to lower or higher overall borrowing costs? More importantly, will the new sources of capital be available when the next down-cycle comes?*

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SHIPOWNERS must miss the days of yore when their capital structure was simple, consisting of just two things: bank debt and the shipowner's own equity.
Today's capital structures are more complex, whether by design or necessity, and they are about to get even more complicated, with the adoption of new accounting rules by the end of 2018.
This transformation applies across the entire shipping spectrum and affects all shipping companies, from small privately owned family businesses to the large publicly traded corporations.
The big question is which shipping companies will make smart use of complex capital structures to lower their overall cost of capital.
The driving forces behind this transformation are necessity and innovation. Some shipping companies must seek alternative sources of finance because traditional banks are retrenching from ship lending. Others seek new types of securitised debt and equity to diversify their funding sources and optimise — by which they mean lower — their overall cost of capital.
In either case, the result is the same: a bloated, multi-part capital structure.
What follows below are, in our view, the five most important developments in ship finance today.

**Expansion of capital leases**

Capital leases are the new frontier in shipping finance. Once the exclusive domain of containerships fixed on long-term charters, capital leases have expanded to all types of ships and trading conditions, spot or period.

Capital leases are an alternative source of low-cost financing for companies with good credit. But for companies with bad credit, there is a risk that over-reliance on lease financing could lead to unsustainably high debt costs.

Slowly but steadily, capital leases have been replacing traditional bank debt. Scorpio Tankers had no capital lease exposure at the end of 2016. A year later, capital leases accounted for $717m or 26% of its total debt outstanding.

Seaspan, an early pioneer in lease finance, increased its exposure in capital leases from $499m at the end of 2016 to $649m at the end of last year. Capital leases represented 21% of its total outstanding debt as of December 31, 2017.

The main attraction of capital leases is that they can be tailor-made to meet any need, budget, or credit. To understand their versatility, you need to think of them as car leases.

When a customer walks into a used car showroom in the US, they are often greeted with a dealer's familiar sales pitch: "Good credit, bad credit, no problem." You may be guaranteed a deal, but its payment terms, including the finance charge, will ultimately depend on your individual credit score.

Likewise, the terms that shipping companies secure for their capital leases depend on their credit rating. Companies with good credit use capital leases to diversify their lending base with an eye on lowering their overall borrowing costs.

Those with poor credit use them to roll over existing indebtedness and they must often accept higher borrowing costs. These could prove to be unsustainable in the long run.

Capital leases are typically the product of a sale and lease-back transaction. A vessel that is owned by the shipowner is sold to a leasing company and then chartered back on a long-term bareboat basis. At the end of the term, the shipowner has the obligation to buy back the vessel at a pre-determined price.

One of the extra attractions of capital leases is that the bareboat rate and the corresponding interest rate are fixed, thereby offering a built-in hedge against rising interest rates.

**New accounting rules on operating leases**

The new US generally accepted accounting principles and International Financial Reporting Standards rules, which take effect from the end of 2018, are expected to increase the debt leverage ratio for companies that operate large fleets of chartered-in vessels.

For companies that make heavy use of this "asset-lite" business model, they run the risk of rising borrowing costs once the extra debt from operating leases is recognised on their books.

Chartered-in vessels that are fixed on short and medium terms do not typically qualify as capital leases. These operating leases have historically been excluded from the financial statements and have thus not been a factor in the calculation of debt leverage ratios.

Many of these operating leases will now be classified as capital leases under the new rules.

This will result in bloated balance sheets, with assets and liabilities being increased by equal amounts to account for the reclassification of operating leases into capital leases.

In some cases, the balance sheets will be drastically transformed. For example, Seaspan had $3.1bn of debt outstanding as of December 31, 2017. Its outstanding future commitments under vessel operating leases, which were excluded from the above figure, were $1.4bn.

The extra liability will increase the debt leverage ratio, thereby making it harder to comply with debt covenants, and potentially increasing borrowing costs.

**Comeback of high yield bonds and term loans B**

The year 2017 was a banner year for high yield shipping bonds as shipowners sought to lock in long-term borrowing costs. But with rising interest rates, the question is how long that window will remain open for shipping companies at acceptable rates.

According to Clarksons Platou, shipping companies issued a total of $6.3bn in high yield shipping bonds in 2017, and another $1.5bn in institutional term loans, that are also known as term loans B.

This was very different from the year before, when issuance of high yield bonds had failed to reach the $1bn mark. The container sector accounted for 51% of total capital raised, followed by the gas sector at 20%, tankers at 15%, and dry bulk carriers at 10%.

There have been many companies tapping the high yield bond market for the first time. Take for example, Eagle Bulk Shipping in 2017 and Chembulk Carriers in 2018, each raising $200m.
At the same time, shipping companies took renewed interest in institutional term loans. A notable example was International Seaways raising $500m in a term loan B to refinance its previous indebtedness.
High yield bonds and institutional term loans have many similarities. Key among them is that they are sold to institutional investors. Another similarity is that the loan is either non-amortising, as in the case of a high-yield bond, or it amortises at a very low rate, as in the case of term loans B.

**Emergence of preferred equity**
Preferred equity is the most prevalent form of hybrid source of capital, surpassing convertible debt. Its emergence has created a two-lane equity highway. Common shareholders find themselves driving on the fast lane, where the risks and the potential rewards are decidedly higher.
According to a study by Lloyd’s List, shipping companies raised $695m and $739m in preferred equity in 2016 and 2017, representing between 27% and 30% of total equity raised.
Preferred equity has introduced two speed zones to a company’s shareholder base; it represents the low-speed one. Common equity, on the other hand, represents the high-speed zone.
Preferred equity is safer than common equity, but it offers no upside potential because preferred dividends are fixed. To shareholders, the introduction of preferred equity in a company’s balance sheet can increase the risk-reward profile of its common equity.
There has been a noticeable trend by master limited partnerships to issue preferred equity instead of common equity. Shipping MLPs have raised a total of $859m in preferred equity since the beginning of 2017.
By avoiding the issuance of common equity, MLPs — generally using yields to attract investors — hope to keep their ability to raise the common dividend.

**The changing landscape of ship lenders**
Providers of alternative sources of capital, such as lease financing, high yield bonds and preferred equity have disrupted the market for ship lending.
That was facilitated by the rapid retrenchment and exodus of western banks. In that sense, alternative financing has been good news for the industry. The only question is how committed these newly found sources of capital will remain to shipping during the next cyclical downturn.
Big western banks had the will and the power to stand by struggling shipowners during previous down cycles. Will the same hold true for the new kids on the block?
Sourcs: Lloyd’s List
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(5) Clarksons Research, 19 April 2018

## Shipping Market Overview: Spring 2018

Six months ago we described the shipping markets as experiencing “improvements filtering through after hitting rock bottom in 2016”. This trend has continued with the ClarkSea Index averaging $10,767/day in 2017, up 14% y-o-y, but still 8% below trend since the financial crisis. The bulkcarrier and container market picked up significantly, with earnings increasing 77% and 25% y-o-y in 2017. Conditions in the LNG carrier market also improved last year, whilst the cruise, Ro-Ro and ferry markets have remained firm. However, tanker earnings fell by another 35% in 2017, to a 20 year low, with market conditions also depressed in 2018 so far. The LPG carrier sector also remains below trend, and whilst the offshore sector appears to have bottomed out, major challenges remain.

The economic upswing we reported six months ago continues, with growth of 3.6% reported in 2017 and expansion of 3.9% projected in 2018 and 2019. There has been improved economic performance across the developed and developing world, including the maritime important Chinese economy. Improved commodity prices have also supported a number of regional economies.

Seaborne trade grew by 3.9% in 2017, encouragingly the fastest rate of expansion in five years. Volumes totalled 11.6bt, equivalent to 1.5t per capita and 85% of world trade. Our forecast for 2018 suggests trade will reach 12bt tonnes, healthy growth of 3.5% and with a tonne-mile trend of 4.1%. Dry bulk trade grew 3.7% in 2017, with 3% growth projected in 2018. Container trade is projected to grow robustly in 2018 at 5%, following expansion of 5.4% in 2017. Oil trade growth slowed in 2017, although crude tonne-mile trade expanded by 5%, with similar trends projected in 2018. Chemicals trade has picked up (5% in 2017), whilst LNG trade is projected to grow by over 10% in 2018. Risks to seaborne trade remain, including from the recent protectionist policies proposed, but there are a range of positive drivers, including underlying Asian growth, with China's 'Belt & Road' programme a potentially important factor.

Newbuild ordering picked up in 2017, albeit from historical lows, with orders placed for 80m dwt. Just 150 yards took an order (ships 1,000+ GT) in 2017, down from over 600 in 2008. The orderbook now stands at 200m dwt (and $226bn), down 37% from start 2016 levels and to a manageable 10% of the fleet. 'Non-delivery' fell in 2017 but remained significant at 29%. Yard output is projected to slow by 20% in 2018 to 79m dwt, and by a further 14% in 2019, with further consolidation in shipbuilding capacity likely. In 2018 we expect Chinese yards to output 38% (by CGT) of global production.

Recycling activity slowed in 2017, with 35.4m dwt scrapped, down 20% from 2016. Bulkcarrier and boxship scrapping slowed alongside improved market conditions, but tanker recycling picked up and in Q1 2018 reached the highest quarterly total in almost 20 years. The world fleet, now 1.9bn dwt, is projected to grow by 2.5% in 2018, the slowest pace for 16 years, and by just 2.2% in 2019.

A record 93.1m dwt was sold on the sale and purchase market in 2017. Bulkers accounted for 50% of this volume, with strong investor interest, led by Greeks, whilst bulker and boxship values increased. Changes to the financial landscape continue to impact owners' access to capital, while capital market activity rose slightly in 2017. Consolidation amongst owners remains an underlying trend.

Focus on the environmental regulatory timetable continues to accelerate ahead of the 2020 global sulphur cap. Uptake of scrubbers and LNG as a fuel is picking up, but most owners are still taking a 'wait and see' approach on both 'timing and technology'. SOx emissions limits came into force at the start of 2018 at ports within proposed Chinese ECAs, whilst uncertainty remains over how the industry will meet carbon emission targets. Digital technology continues to develop and is expected to have an increasing influence.

Overall, whilst some shipping markets continue to face challenges, clear improvements are apparent elsewhere. At a broad level, shipyard capacity, environmental regulation, demand trends and finance availability remain key issues to monitor. While risks remain, sentiment has generally become more positive, and building blocks for further improvement seem to be in place as we move into the next phase of the cycle.
Source: Clarksons
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(6) IMF, 18 April 2018

# Global Economy: Good News for Now but Trade Tensions a Threat

The world economy continues to show broad-based momentum. Against that positive backdrop, the prospect of a similarly broad-based conflict over trade presents a jarring picture.

Three months ago, we updated our global growth forecast for this year and next substantially, to 3.9 percent in both years. That forecast is being borne out by continuing strong performance in the euro area, Japan, China, and the United States, all of which grew above expectations last year. We also project near-term improvements for several other emerging market and developing economies, including some recovery in commodity exporters. Continuing to power the world economy's upswing are accelerations in investment and, notably, in trade.

Looking at the largest economies, our 2018 growth projections, compared with our earlier October 2017 projections, are 2.4 percent for the euro area (up by 0.5 percentage point), 1.2 percent for Japan (up by 0.5 percentage point), 6.6 percent for China (up by 0.1 percentage point), and 2.9 percent for the United States (up by 0.6 percentage point). U.S. growth will be boosted in part by a largely temporary fiscal stimulus, which explains over one third of our upgrade over last October for 2018 global growth.

Despite the good near-term news, longer-term prospects are more sobering. Advanced economies—facing aging populations, falling rates of labor force participation, and low productivity growth—will likely not regain the per capita growth rates they enjoyed before the global financial crisis. Emerging and developing economies present a diverse picture, and among those that are not commodity exporters, some can expect longer-term growth rates comparable to pre-crisis rates. Many commodity exporters will not be so lucky, however, despite some improvement in the outlook for commodity prices. Those countries will need to diversify their economies to boost future growth and resilience.

**Latest World Economic Outlook projections**

Global growth continues to strengthen.

(percent change)

| | | Projections | |
|---|---|---|---|
| | 2017 | 2018 | 2019 |
| **World Output** | **3.8** | **3.9** | **3.9** |
| **Advanced Economies** | **2.3** | **2.5** | **2.2** |
| United States | 2.3 | 2.9 | 2.7 |
| Euro Area | 2.3 | 2.4 | 2.0 |
| Germany | 2.5 | 2.5 | 2.0 |
| France | 1.8 | 2.1 | 2.0 |
| Italy | 1.5 | 1.5 | 1.1 |
| Spain | 3.1 | 2.8 | 2.2 |
| Japan | 1.7 | 1.2 | 0.9 |
| United Kingdom | 1.8 | 1.6 | 1.5 |
| Canada | 3.0 | 2.1 | 2.0 |
| Other Advanced Economies | 2.7 | 2.7 | 2.6 |
| **Emerging Market and Developing Economies** | **4.8** | **4.9** | **5.1** |
| Commonwealth of Independent States | 2.1 | 2.2 | 2.1 |
| Russia | 1.5 | 1.7 | 1.5 |
| Excluding Russia | 3.6 | 3.5 | 3.6 |
| Emerging and Developing Asia | 6.5 | 6.5 | 6.6 |
| China | 6.9 | 6.6 | 6.4 |
| India | 6.7 | 7.4 | 7.8 |
| ASEAN-5 | 5.3 | 5.3 | 5.4 |
| Emerging and Developing Europe | 5.8 | 4.3 | 3.7 |
| Latin America and the Caribbean | 1.3 | 2.0 | 2.8 |
| Brazil | 1.0 | 2.3 | 2.5 |
| Mexico | 2.0 | 2.3 | 3.0 |
| Middle East, North Africa, Afghanistan, and Pakistan | 2.6 | 3.4 | 3.7 |
| Saudi Arabia | −0.7 | 1.7 | 1.9 |
| Sub-Saharan Africa | 2.8 | 3.4 | 3.7 |
| Nigeria | 0.8 | 2.1 | 1.9 |
| South Africa | 1.3 | 1.5 | 1.7 |
| Low-Income Developing Countries | 4.7 | 5.0 | 5.3 |

Source: IMF, *World Economic Outlook*, April 2018.

INTERNATIONAL MONETARY FUND

**Escalating risks**

Looking past the next few quarters, moreover, there are notable risks to the outlook. As our new Fiscal Monitor documents, global debt levels—both private and public—are very high, threatening repayment problems as monetary policies normalize in an environment where many economies face lower medium-term growth rates. As the new Global Financial Stability Report shows, global financial conditions remain generally loose despite the approach of higher monetary policy interest rates, enabling a further buildup of asset-market vulnerabilities. Geopolitical risks should not be discounted; and, of course, the recent escalating tensions over trade present a growing risk.

Perceptions of these risks could already be taking a toll. For example, while global purchasing managers' indexes remain in expansionary territory, they have recently softened—in advanced and emerging market economies alike—owing in part to weakening export orders. Financial conditions remain easy, as just noted, but have tightened somewhat since the start of the year.

At the IMF, we have been saying for a while that the current cyclical upswing offers policymakers an ideal opportunity to make longer-term growth stronger, more resilient, and more inclusive. The present good times will not last for long, but sound policies can extend the upswing while reducing the risks of a disruptive unwinding. Countries need to rebuild fiscal buffers, enact structural reforms, and steer monetary policy cautiously in an environment that is already complex and challenging.

**Trade tensions**

Instead, the prospect of trade restrictions and counter-restrictions threatens to undermine confidence and derail global growth prematurely. While some governments are pursuing substantial economic reforms, trade disputes risk diverting others from the constructive steps they would need to take now to improve and secure growth prospects.

That major economies are flirting with a trade war at a time of widespread economic expansion may seem paradoxical—especially when the expansion is so reliant on investment and trade. Particularly in advanced economies, however, public optimism about the benefits of economic integration has been eroded over time by long-standing trends of job and wage polarization, coupled with persistent sub-par growth in median wages. Many households have seen little or no benefit from growth.

These trends are more due to technology change than to trade, and even in countries where trade backlash is not prominent, public skepticism about policymakers' ability to generate robust and inclusive growth has spread. Voters' disillusionment raises the threat of political developments that could destabilize a range of economic policies in the future, reaching beyond trade policy.

Governments need to rise to the challenges of strengthening growth, spreading its benefits more widely, broadening economic opportunity through investments in people, and increasing workers' sense of security in the face of impending technological changes that could radically transform the nature of work. Fights over trade distract from this vital agenda, rather than advancing it.

The recent intensification of trade tensions started in early March with the United States' announcement of its intent to levy steel and aluminum tariffs for national security reasons. The announcement has fed into several bilateral negotiations aimed at reducing U.S. trade deficits with individual trading partners. These initiatives will do little, however, to change the multilateral or overall U.S. external current account deficit, which owes primarily to a level of aggregate U.S. spending that continues to exceed total income. Recent U.S. fiscal measures will actually widen the U.S. current account deficit. Compared with our October 2017 projection, which preceded the recent U.S. tax and spending changes, we now expect the United States' current account deficit for 2019 to be roughly $150 billion higher.

Current account imbalances can play an essential economic role, but when they become excessive, they carry risks, including the risk of generating trade disputes. In the present global environment, the burden of reducing excess global imbalances should be shared through multilateral action—excess deficit and excess surplus countries alike need to adopt macroeconomic policies that align their spending levels more closely with their incomes.

Even in the absence of excess global imbalances, however, coping with inequitable trade practices, including intellectual property concerns, requires dependable and fair dispute resolution within a strong rule-based multilateral framework. There is room to strengthen the current system rather than risk bilateral fragmentation of international trade. Plurilateral arrangements, if consistent with multilateral rules, can also provide a useful springboard to more open trade. In this respect, the eleven-country

Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the forty-four-country African Continental Free Trade Area hold out promise.

Each national government can do much on its own to promote stronger, more resilient, and more inclusive growth. Multilateral cooperation remains essential, however, to address a range of challenges in addition to the governance of world trade. These other challenges include climate change, infectious diseases, cyber-security, corporate taxation, and control of corruption—among others. Global interdependence will only continue to grow and unless countries face it in a spirit of collaboration, not conflict, the world economy cannot prosper.
Source: IMF
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(7) Hellenic Shipping News, 17 April 2018/ ANI

## China's BRI initiative hits roadblock in 7 nations

China's Belt and Road Initiative (BRI), which aims to build a trade and infrastructure network connecting Asia with Europe and Africa along the ancient trade routes of Silk Road, has hit a roadblock in seven countries, according to a recent report.
The Gwadar Port in Pakistan's Balochistan province is the venue of the USD 63 billion China-Pakistan Economic Corridor (CPEC). China is developing Pakistan's power plants, airports, highways and other infrastructure under the project. Also, Beijing aims to link its landlocked western region to Gwadar. Despite this, some analysts have expressed concerns such as rising trade deficit of Pakistan with China. There are also doubts on how Islamabad will repay off its debt to Beijing if the former is unable to do so. Also, there are worries that the price of such investment can be a huge debt burden, according to the report by Nikkei Asian Review.
"The China-Pakistan corridor will no doubt be a game changer for Pakistan, but we need to be careful. Ten years' tax concessions, 90-year leases for Chinese companies and cheap imports will impact the competitiveness of existing domestic industries," Nikkei Asian Review quoted Ehsan Malik, the CEO of Pakistan Business Council, a business policy advocacy forum, as saying.
Nikkei Asian Review and The Banker magazine have published a detailed report on the status of the BRI projects in seven countries – Indonesia, Sri Lanka, Kazakhstan, Bangladesh, Poland, Laos and Pakistan. The report also deduces the concerns of these countries ranging from a lack of participation by local workers and banks to unmanageable debts.
In Indonesia, the BRI project has been experiencing serious delays. Construction on a USD 6 billion railway line is running behind schedule, coupled with rising costs. This has been the same scenario in Kazakhstan and Bangladesh.
In terms of deficits, concerns have been raised about owing unmanageable debts to China in Sri Lanka, the Maldives and Laos, along with Pakistan.
As per the report, Beijing's massive economic project is also plagued with sovereignty concerns. In Sri Lanka, China's takeover of the Hambantota Port has raised eyebrows over the "loss of sovereignty."
In 2008, former Sri Lankan president Mahinda Rajapaksa had ordered the construction of the USD 1.5 billion Hambantota Port.
Colombo has granted a 99-year lease on the port to China Merchants Port Holdings in a bid to eliminate its debts. The first phase of the project, which ended in 2010, costs USD 361 million. The Export-Import Bank of China financed 85 percent of the work during the first phase.
The Sri Lankan Government found itself unable to repay its debts as the port's losses started piling up. The country had an external debt of USD 48.3 billion in 2017-end, and its annual external financing needs are USD 11 billion.
Colombo owes a debt of USD 8 billion to Beijing and is said to carry an interest rate of 6 percent, according to the report.
In 2009, Rajapaksa flagged off the construction of Sri Lanka's second international airport in Mattala, situated 20km from the port. Of the USD 209 million construction cost, the Exim Bank of China put up USD 190 million with a concessionary loan.

The Mattala airport is now known as “the world’s emptiest international airport” since it has only four regular flights arriving and departing per week. The Sri Lankan government has plans to sell off the airport as it is mounting losses.

China is also constructing a USD 15 billion project to build “Port City Colombo” on reclaimed land in the Sri Lankan capital.

The first phase of the project, costing around USD 1.4 billion is being undertaken by a subsidiary of China Communications and Construction Co, which is also bearing the total cost of reclaiming 269 hectares of land.

In Indonesia’s Bandung city, a 142 km-railway line connecting the city with the capital Jakarta, which was supposed to open next year, has experienced delays, the report notes.

According to local officials, in February, only 10 percent of the work has been completed so far. Also, a funding crunch is also starting to raise concerns over the financial health of Indonesian companies involved in the construction of the railway line.

Adding to the problems are paperwork and permit issues, which halted the project in its first several months.

Land acquisition has been painfully slow, as half of the total land has been taken so far. Rising land prices during delays have also led to the further hampering of the progress of the railway line.

The country’s second BRI project is the Morowali Industrial Park on Sulawesi island, which already hosts Chinese nickel smelters and a stainless steel factory.

According to the report, an agreement totalling USD 1.6 billion was signed in Beijing last year that includes the construction of a carbon steel factory and a power plant.

Furthermore, Indonesia’s Investment Coordinating Board has designated three provinces for investment purposes – North Sulawesi, North Kalimantan and North Sumatra respectively. Other future plans include – development of new industrial parks, ports, airports and tourism industry.

In Bangladesh, the CSIS Reconnecting Asia Project has identified three key BRI projects – the Dhaka-Jessore rail line, the Payra power plant and the Karnaphuli Tunnel, which is the country’s first-ever underwater tunnel.

Construction has already begun for the USD 1.65 billion coal-fired power plant by the port of Payra. The plant is a joint venture involving Chinese power company, CMC and Bangladesh’s state-owned North-West Power Generation Co.

The financing of the plant is fully provided by Beijing and is scheduled to be operational by December 2019.

The USD 4.4 billion Dhaka-Jessore rail line is currently under preparatory phase. Announced in 2016, the line is expected to be operational by 2022. State-owned China Railway Construction is the project’s contractor.

For the construction of Karnaphuli Tunnel, China Communications Construction Co. signed a USD 705 million contract with the Bangladesh Bridge Authority (BBA) in 2015.

However, Bangladeshi newspaper The Financial Express reported last year that construction work on the tunnel had not started because the BBA was waiting for the Exim Bank of China to release funds for the project.

In Laos, a brand new railway line, spanning 414 km, connecting its capital, Vientiane to the China-Laos border is scheduled to be completed in December 2021, as per the report.

Talks of a rail project in the country began long ago. After numerous delays, a groundbreaking ceremony was held in December 2016 at Luang Prabang, Laos’ ancient royal capital, marking the official start of the construction of the railway line.

However, there are complaints among Laotians that the labour on the construction of the railway line is dominated by the Chinese.

Development banks have also expressed concerns that the USD 6 billion rail project will further worsen Laos’ already precarious debt levels, which reached 68 percent of GDP in 2016, increasing the debt distress level from “moderate” to “high” in the recent World Bank/IMF Debt Sustainability Analysis, according to the report.

Both China and Laos have set up a 70-30 joint venture to finance the railway project. Each side needs to contribute 40 percent of their investment commitment in cash.

This means that Laos, with 30 percent of the joint venture, needs to contribute USD 715 million for the construction of the railway line.

Source: ANI