Please note: this publication is intended for academic use only, not for commercial purposes

Global Maritime Weekly Digest

Publishing Director: Prof Minghua Zhao Editor: Richard Scott

25 July 2017 issue 84

*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.

Contents

(1) Global shipping industry performance in the 2017 first half

(2) Container shipping alliances: geopolitics

(3) Shipbuilding capacity reductions around the world

(4) China's shipbuilding yards face steeply declining orderbooks

(5) World economic growth pickup remains on track, according to IMF analysis

(6) Port projects in many countries are a focus of China's investment

(7) Chinese port operators catching up with global giants

Editorial comments

- What ***notable changes in shipping activities*** occurred during the first half of 2017? Highlights emphasised by a major consultancy firm include signs of improving fundamentals in the bulk carrier and container ship segments in the years ahead (item 1).
- But the outlook for these markets points to ***difficulty in achieving smooth progress*** while, elsewhere, weakness in the tanker and gas sectors is prominent. The outlook for cruise shipping, by contrast, seems bright, as reflected in a record high orderbook for new ships amid expanding passenger numbers in China and other countries.
- Prospects for ***global economic activity***, a vital ingredient determining seaborne cargo trade, are looking more cheerful. The latest International Monetary Fund forecast suggests that the pickup in 2017 foreseen earlier remains on track, despite a downwards revision of GDP forecasts for the USA (item 5). China's economic growth rate is no longer expected to slow this year, while Japan and the eurozone are seeing modest improvements.
- Analysis of newbuilding orderbooks emphasises how ***China's shipbuilding industry*** is running down fast (items 3 and 4). In the first half of this year, the orderbook backlog fell by almost a third, as deliveries greatly outpaced incoming new orders.
- By contrast, ***China's investments in foreign ports*** are growing rapidly. Estimates suggest a doubled value of investments during the past year (item 6). Chinese port operators are catching up with foreign competitors, causing 'some anxiety' according to reports (item 7).

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

Please note: this publication is intended for academic use only, not for commercial purposes

(1) Clarksons Research, 14 July 2017

Shipping's Half Year Report – Any Better This Year?

In last year's half year shipping report, we reported on an industry that "must do better". With the ClarkSea Index averaging $10,040 per day in the first half (up 2% y-o-y but still 14% below trend since the financial crisis) there are still many subjects (sectors) struggling for good grades as our Graph of the Week shows. But are there some that are showing a bit more potential?

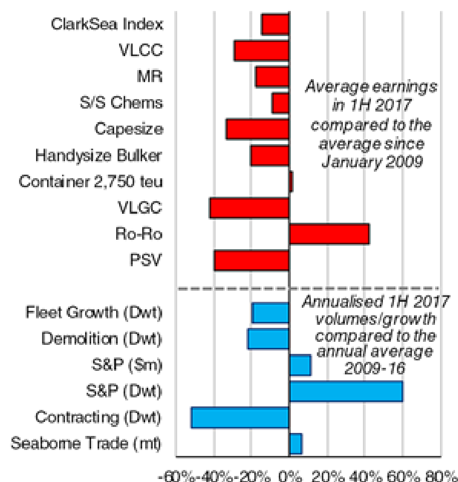
Don't Rest On Your Laurels!

A year on from record lows, bulker earnings remain below trend (defined as the average since the financial crisis) but are showing signs of improvement. Capesize spot earnings moved from an average of $4,972/day in 1H 2016 to $13,086/day (75% below trend versus 33% below trend). Indeed, based on the first quarter alone, Panamax earnings moved above trend for the first time since 2014 and we have certainly seen lots of S&P activity. The containership sector has responded to the Hanjin bankruptcy with another wave of consolidation (the top ten liner companies now operate 75% of capacity) and some improvements, albeit with lots of volatility, in freight rates. Improved volumes, demolition and the re-alignment of liner networks, helped improve charter rates and indeed feeder containerships rates have moved above trend for the first time since 2011. Although some gains have been eroded moving into the summer, fundamentals for both these sectors suggest improvements in coming years but it may be a bumpy road!

Graph of the Week

Half Year Report: How Are Your Grades Looking?

The red bars show the percentage difference between average earnings in 1H 2017 and since the start of 2009 in each sector. The blue bars show the percentage difference between annualised fleet growth (in percentage terms) or demolition, sales (in value and dwt) and contracting volume in 1H 2017 compared to the annual average in the 2009-16 period. The bar for seaborne trade compares projected growth in million tonnes this year, compared to the annual average growth rate in 2009-16.



Source : Clarksons Research

Dropping Grades!

After solid marks in last year's reviews, the tanker sectors tracked here have moved into negative territory compared to trend, with the larger ships feeling the biggest correction as fleet growth, particularly on the crude side, remains rapid and oil trade growth slows. Aside from a small pick-up in the LNG market in recent weeks, the gas markets remain weak, with VLGC earnings 42% below trend. Some increased activity, project sanctioning and investor interest has not yet taken offshore off the "naughty step".

Still Top Of The Class?

The only sector significantly above trend for the first half is Ro-Ro, with rates for a 3,500lm vessel averaging euro 18,458/day, 42% above trend. There also continues to be strong interest in ferry and cruise newbuilding (the 2 million Chinese cruise passengers last year, now 9% of global volumes, is supporting a record orderbook of USD 44.2bn, as is the interest in smaller "expedition" ships). We must

Please note: this publication is intended for academic use only, not for commercial purposes

also give a mention to S&P volumes that are 60% above trend (51m dwt, up 50% y-o-y) and to S&P bulker values which improved 25% in the first quarter alone.

Showing Potential?
Upward revisions to trade estimates have been a feature of the first half, and we are now projecting full year growth of 3.4% (to 11.5bn tonnes and 57,000bn tonne-miles). Although demolition has slowed (down 55% y-o-y to 16m dwt), overall fleet growth of 2.3% is still below trend but an increase on 1H 2016 (1.6%). While there has been some pick-up in newbuild ordering to 24m dwt (up 27% y-o-y), this remains 52% below trend. Last year we speculated on an appointment with the headmaster – still possible but perhaps this year extra classes on regulation and technology?
Source: Clarksons
+++++++++++++++

(2) Hellenic Shipping News, 11 July 2017/ Olaf Merk

The Geopolitics of Container Shipping Alliances

What is the future of container shipping? Will industry consolidation continue and, if so, who will still exist in 2020? All highly relevant questions constituting a fairly amusing – yet nerdy – game at supply chain conferences. This often comes with the predictable disclaimer: nobody really knows. However, there are three “facts” that make predicting the future of the container shipping industry relatively easy. One wild card remains.

1. More consolidation is “needed”
Almost all businesses in the logistics chain are currently suffering from the effects of consolidation in container shipping: shippers deplore the decline of service frequency, ports the loss of calls and terminals the stress of larger peaks. Yet, within the current business model, consolidation might be needed for the container shipping industry to be profitable: they need size to finance and fill bigger ships. In the coming years an impressive amount of new mega-ships will come into operation. Along with the predictable awe, this will bring even more overcapacity to a sector that has so far only been able to survive this by laying up vessels and scrapping ships that would normally be considering too young to demolish. So predicting more mergers is a pretty safe bet. Since 2014 we have witnessed frantic merger activity resulting in rapid disappearance of smaller carriers. There are still a few left that look vulnerable and might have only one choice: be eaten or to continue as regional niche player. By 2020 there will be no more than six global carriers with comprehensive networks.

2. COSCO will not stop until it is the biggest
It has been a spectacular runner-up: ranked sixth largest just two years ago, it is now the fourth largest global container carrier – and would enter the top 3 if the merger with OOCL goes ahead. Its ascendance will likely not stop there. As a state-owned company, COSCO has a logic that is not only commercial, but also geopolitical, maybe even predominantly so. China wants to secure its supply chains and strengthen its naval presence: dominating in container shipping can help achieve this. This has underpinned the merger of COSCO and China Shipping, their recent attempts to acquire other medium-sized carriers and the Chinese terminal shopping spree all over the world.

3. For the EU, “champions” trump competition
Which means: consolidation is fine especially as it has benefited European carriers. This has not been admitted as such, but can be deducted from its behaviour with respect to the proposed P3-alliance and the recent merger of Maersk and Hamburg Sud. P3 would have forged an alliance of the three largest global container carriers: Maersk, MSC and CMA CGM- all European – in a way that would have transformed the classical vessel sharing agreement into a more strategic form of cooperation. The European Commission signalled it would accept this, but the Chinese authorities did not give regulatory approval, officially because it would distort competition and quite likely also for geopolitical reasons: namely to avoid the emergence of a European champion. More recently, the European Commission also accepted the merger of market leader Maersk and Hamburg Sud, under certain conditions. These

Please note: this publication is intended for academic use only, not for commercial purposes

precedents will limit the possibilities of the Commission to stop mergers that it likes much less, e.g. COSCO taking over a European carrier. This means – paradoxically – that the EU will have difficulties to effectively play the card of competition policy against China: it will have to allow the same degree of concentration for Chinese carriers that it apparently finds reasonable for European carriers.

How will the game unfold?
The few smaller global carriers that remain are from Hong Kong (OOCL) and Taiwan (Evergreen and Yang Ming). COSCO has the best cards to buy all three. Maybe the most important reason is geopolitical. The Chinese will simply not accept that a European competitor would dare to buy up a shipping firm from their "backyard". So this is very unlikely to happen. Moreover, COSCO is already cooperating with OOCL and Evergreen in the Ocean Alliance.
The crucial question seems to me what is going to happen to CMA CGM. It entered the Ocean Alliance as the dominant player, but might become junior partner if COSCO manages to take over OOCL and Evergreen. Moreover, COSCO apparently has shown interest in buying shares of CMA CGM. Provided that the acquisitions of OOCL and Evergreen work out, buying only part of CMA CGM (say 24%) would help pushing COSCO beyond the reach of Maersk and make it world's largest carrier. Additional advantage for the Chinese state: via the minority position in CMA CGM they would acquire a de facto majority in Terminal Link, the terminal operator owned for 51% by CMA CGM and for 49% by China Merchants Holding, another Chinese state-owned company. And who can exclude the possibility that COSCO Ports and China Merchants port terminals will merge one day?

Wild card
Over the coming months the Chinese will no doubt test the resolve of the French to block sales of CMA CGM shares to China. The French state might even consider to buy shares in CMA CGM to pre-empt the Chinese from doing so, which might be a logical consequence of the French discussion this year on what constitutes a strategic merchant fleet. However, one could wonder if this is a sustainable long-term solution. Given the recent re-emergence of the French-German axis and the growing assertiveness in Europe vis-à-vis China, another solution might make political sense. A joint French-German carrier, partly state-owned, with potential network complementarities would not only be a powerful expression of that new political reality, but also suddenly become world's largest carrier. For this to happen, the French president would – for a start – need to go to Hamburg…
Source: Olaf Merk, ShippingEu
+++++++++++++++

(3) Clarksons Research, 19 July 2017

The Disappearing Shipyards: Not Much Of A Mystery?

At the beginning of 2009, close to the peak of the current shipbuilding cycle, there were a total of 934 'active' shipyards globally. This number has now dropped by 62% to stand at 358 yards as of start July 2017, the lowest number of active yards for many years. With a significant number of yards exiting the market, this month's Shipbuilding Focus investigates the nature of the these changes.

Searching For Clues
An 'active' yard is defined here as one with at least one unit (1,000+ GT) on order, and a yard is active in a specific sector if it has a ship of that type on order. The number of 'active' yards can be a useful indicator of shipyard capacity, with the falling number of active yards contributing to the recent decline in capacity. It should be noted that many yards are active in multiple sectors, so the total number of active yards is not equal to the sum of the yards active in each sector.

The Hound Of The Bulkervilles
As of the start of 2009, there were 293 yards active in the bulkcarrier sector, with almost a third of total active shipyards having a bulker on order, due to the boom in bulker ordering and the relatively lower barriers to entry in the sector. This total has now fallen by 67% to stand at 97 yards. On a regional basis, the largest drop has been in China, with the number of Chinese yards with a bulker on order declining by

Please note: this publication is intended for academic use only, not for commercial purposes

73% to stand at 50 at the start of July. In terms of consolidation, the ‘top 10’ yards (ranked by total dwt on order in the sector) account for 54% of the total bulker orderbook in dwt terms.

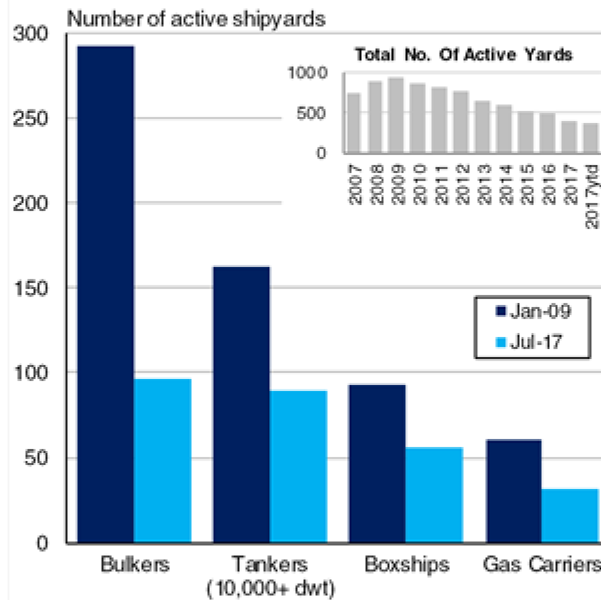
Tanker Tailor Soldier Spy

The number of active yards in the tanker sector (10,000+ dwt) on order has decreased by 55% since 2009 to currently stand at 89 shipyards, only 8 yards fewer than in the bulker sector. China, Korea and Japan each have between 10 and 20 fewer active yards in the sector. In terms of vessel types, the number of yards building crude tankers has remained steady, with the decline mainly accounted for by product and chemical tankers. Similarly to the bulker sector, the ‘top 10’ yards account for 56% of the total tanker orderbook in dwt terms.

Graph of the Month

Looking At The Evidence: Active Yards By Sector

The graph shows the number of ‘active’ shipyards globally in each major vessel sector, at the start of 2009 and July 2017. 2009 was the year when the total number of active shipyards peaked (although it should be noted that in the tanker and containership sectors the number peaked in 2008 and 2007 respectively). The inset graph shows the total number of active shipyards at the start of each year, across all sectors.



Source : Clarksons Research

Pandora’s Boxships

In the containership sector, the number of active yards has declined by 40% since 2009 to 56 at the start of July. The number of active Asian shipyards has dropped from 64 to 46, while the largest decline was at European yards, with only one shipyard in Europe currently building a boxship, down 96% (German yards alone accounted for 17% of the boxship orderbook in 1998 in TEU terms). Consolidation is a little stronger in the boxship sector than in the bulker and tanker sectors, with the ‘top 10’ yards accounting for 61% of the orderbook in TEU.

So, in total, there are currently 62% fewer yards ‘active’ than at the start of 2009. The largest drop has been in the bulker sector, but the number of active yards has also declined significantly elsewhere. Furthermore, 30% of currently active yards are set to complete construction of ships on their orderbook by the end of this year. With these trends in place, it will be no mystery as shipyard capacity continues to slide.

Source: Clarksons

+++++++++++++++

Please note: this publication is intended for academic use only, not for commercial purposes

(4) Lloyd's List, 21 July 2017

Shrinking backlog and tight financing challenge Chinese shipyards says Cansi

Orderbook backlog in the first half dropped 30.5% versus the year-ago period as finance tightens and deliveries roll out of yards

NEWBUILDING contracts at Chinese shipyards have shown signs of pickup, but the industry outlook remains challenging as orderbook backlogs continue to decline while getting financing and making profit still appear a tall order.

That is how China Association of the National Shipbuilding Industry summarised the performance of the country's shipyards for the first half of this year.

New orders at Chinese shipyards fell 29% year on year in the six month period to 11.5m dwt. Of those, exporting contracts stood at 10.2m dwt, representing a 29.1% decrease from the year-ago period.

That decline is largely distorted by the ordering of 30 valemax ore carriers of 400,000 dwt from Cosco Shipping, China Merchants Group and ICBC Financial Leasing at several compatriot yards between March and April 2016

Fresh tonnage ordered in January, February and May this year were all higher than the corresponding months in 2016, while that in June was just slightly lower against the year-ago period, according to the Cansi interim report.

However, with a considerable increase in newbuilding completion, Chinese builders are facing a worrisome decline in their backlogs.

"The majority of the shipbuilding companies only have a backlog covering work till 2018, while vacancy rate of dry dock for 2019 has increased substantially," said Cansi.

Completed tonnage in the six months jumped 57.4% to 26.5m dwt, of which those for export increased 60.7% to 25.1m dwt.

As a result, the orderbook backlog of Chinese builders amounted to 82.8m dwt as of June 30, a 30.5% drop versus the year-ago period and an 6.6% fall against the end of March.

The backlog for exported newbuildings stood at 76.7m dwt, which is less than the end-March volume of 81.8m dwt and a 32.1% decline on an annual basis.

Of the 80 major Chinese companies involved in shipbuilding, ship-repairing and offshore projects, their combined revenue fell 11% to Yuan128bn ($18.9bn) in the six months, while total profits plummeted 49% to Yuan980m, according to Cansi's statistics.

Challenges

The association also laid out several issues that are still pestering the industry.

Please note: this publication is intended for academic use only, not for commercial purposes

First and foremost is tight financing. Some builders lost orders as they failed to obtain refund guarantees from banks, especially during the first half of this year when market liquidity was constrained by Beijing's efforts in deleveraging the country's financial sector.

As a result, the interest rate of ship buyer's credit in China was higher than those in Japan and South Korea, Cansi said.

Another big headache lies in the offshore project sector, where yards are struggling to make delivery of their newbuildings due to weak oil prices.

As of end June, there were 80 offshore platforms sitting on the orderbooks of Chinese builders, with a total value of $12.3bn.

"The delay in delivery of offshore platforms have not only taken up a large amount of working capital of the builders, but also incurred a lot of finance and maintenance costs, which have affected their operational sustainability."

Some yards, in order to survive the distressed market, had shift their business from shipbuilding to ship-repairing during the reporting period.

This has led to a revival of some "zombie yards" and overcapacity problems in the Chinese ship-repairing industry.

Despite all the headwinds, the industry has still made some progress, including cost reduction and increase of high-value added orders, the Beijing-based government-backed organisation added.
Between January and June, Chinese yards have taken orders topping 4.6m compensated gross tonnage, an indicator that reflects the added value of a given newbuilding by its ship type and complexity of construction — up 11.3% compared to the same period of last year.
+++++++++++++++

(5) IMF, 24 July 2017

World Economic Outlook Update, July 2017

- *The pickup in global growth anticipated in the April* World Economic Outlook*remains on track, with global output projected to grow by 3.5 percent in 2017 and 3.6 percent in 2018. The unchanged global growth projections mask somewhat different contributions at the country level. U.S. growth projections are lower than in April, primarily reflecting the assumption that fiscal policy will be less expansionary going forward than previously anticipated. Growth has been revised up for Japan and especially the euro area, where positive surprises to activity in late 2016 and early 2017 point to solid momentum. China's growth projections have also been revised up, reflecting a strong first quarter of 2017 and expectations of continued fiscal support. Inflation in advanced economies remains subdued and generally below targets; it has also been declining in several emerging economies, such as Brazil, India, and Russia.*
- *While risks around the global growth forecast appear broadly balanced in the near term, they remain skewed to the downside over the medium term. On the upside, the cyclical rebound could be stronger and more sustained in Europe, where political risk has diminished. On the downside, rich market valuations and very low volatility in an environment of high policy uncertainty raise the likelihood of a market correction, which could dampen growth and confidence. The more supportive policy tilt in China, especially strong credit growth, comes with rising downside risks to medium-term growth. Monetary policy normalization in some advanced economies, notably the United States, could trigger a faster-than-*

Please note: this publication is intended for academic use only, not for commercial purposes

anticipated tightening in global financial conditions. And other risks discussed in the April 2017 WEO, including a turn toward inward-looking policies and geopolitical risks, remain salient.

- *Projected global growth rates for 2017–18, though higher than the 3.2 percent estimated for 2016, are below pre-crisis averages, especially for most advanced economies and for commodity-exporting emerging and developing economies. Among the former, many face excess capacity as well as headwinds to potential growth from aging populations, weak investment, and slowly advancing productivity. In view of weak core inflation and muted wage pressures, policy settings should remain consistent with lifting inflation expectations in line with targets, closing output gaps, and—where appropriate—external rebalancing. Reforms to boost potential output are of the essence, and slow aggregate output growth makes it even more important that gains are shared widely across the income distribution. Financial stability risks need close monitoring in many emerging economies. Commodity exporters should continue adjusting to lower revenues, while diversifying their sources of growth over time.*

The Global Economy Maintains Momentum

The cyclical recovery continues. Growth outturns in the first quarter of 2017 were higher than the April WEO forecasts in large emerging and developing economies such as Brazil, China, and Mexico, and in several advanced economies including Canada, France, Germany, Italy, and Spain. High-frequency indicators for the second quarter provide signs of continued strengthening of global activity. Specifically, growth in global trade and industrial production remained well above 2015–16 rates despite retreating from the very strong pace registered in late 2016 and early 2017. Purchasing managers' indices (PMIs) signal sustained strength ahead in manufacturing and services.

Commodities and inflation. Oil prices have receded, reflecting strong inventory levels in the United States and a pickup in supply. Headline inflation also generally softened as the impact of the commodity price rebound of the second half of 2016 faded, and remains at levels well below central bank targets in most advanced economies. Core inflation has remained broadly stable. It has largely been stable in emerging economies as well, with a few, such as Brazil and Russia, witnessing strong declines.

Bond and equity markets. Long-term bond yields in advanced economies, which had declined since March, rebounded in late June and early July. The U.S. Federal Reserve raised short-term interest rates in June, but markets still expect a very gradual path of U.S. monetary policy normalization. Bond spreads over Germany have compressed sharply in France, Italy, and Spain on reduced electoral uncertainty and firming signs of recovery. Equity prices in advanced economies remain strong, signaling continued market optimism regarding corporate earnings. Markets are also optimistic about emerging market prospects as reflected in strengthening equity markets and some further compression of interest rate spreads. Oil exporters provide an exception to this pattern, in light of the marked weakening of oil prices since March.

Exchange rates and capital flows. As of end-June, the U.S. dollar has depreciated by around 3½ percent in real effective terms since March, while the euro has strengthened by a similar amount on increased confidence in the euro area recovery and a decline in political risk. Over the same period, exchange rate changes across emerging market currencies have been relatively modest, with some strengthening of the Mexican peso on tighter monetary policy and reduced concerns about U.S. trade frictions, and a depreciation of the Brazilian real on renewed political uncertainty. Capital flows to emerging economies have been resilient in the first few months of 2017, with a notable pickup in non-resident portfolio inflows.

Please note: this publication is intended for academic use only, not for commercial purposes

Global Growth Forecast to Pick up in 2017 and 2018

Global growth for 2016 is now estimated at 3.2 percent, slightly stronger than the April 2017 forecast, primarily reflecting much higher growth in Iran and stronger activity in India following national accounts revisions. Economic activity in both advanced economies and emerging and developing economies is forecast to accelerate in 2017, to 2 percent and 4.6 percent respectively, with global growth projected to be 3.5 percent, unchanged from the April forecast. The growth forecast for 2018 is 1.9 percent for advanced economies, 0.1 percentage point below the April 2017 WEO, and 4.8 percent for emerging and developing economies, the same as in the spring. The 2018 global growth forecast is unchanged at 3.6 percent. The revisions reflect primarily the macroeconomic implications of changes in policy assumptions for the world's two largest economies, the United States and China, as discussed below.

Advanced economies

- The growth forecast in the **United States** has been revised down from 2.3 percent to 2.1 percent in 2017 and from 2.5 percent to 2.1 percent in 2018. While the markdown in the 2017 forecast reflects in part the weak growth outturn in the first quarter of the year, the major factor behind the growth revision, especially for 2018, is the assumption that fiscal policy will be less expansionary than previously assumed, given the uncertainty about the timing and nature of U.S. fiscal policy changes. Market expectations of fiscal stimulus have also receded.
- The growth forecast has also been revised down for the **United Kingdom** for 2017 on weaker-than-expected activity in the first quarter.
- By contrast, growth projections for 2017 have been revised up for many **euro area countries**, including France, Germany, Italy, and Spain, where growth for the first quarter of 2017 was generally above expectations. This, together with positive growth revisions for the last quarter of 2016 and high-frequency indicators for the second quarter of 2017, indicate stronger momentum in domestic demand than previously anticipated.
- The growth forecast for 2017 was also revised up for **Canada**, where buoyant domestic demand boosted first-quarter growth to 3.7 percent and indicators suggest resilient second-quarter activity, and marginally for **Japan**, where private consumption, investment, and exports supported first-quarter growth.

Emerging and developing economies

Emerging and developing economies are projected to see a sustained pickup in activity, with growth rising from 4.3 percent in 2016 to 4.6 percent in 2017 and 4.8 percent in 2018. These forecasts reflect upward revisions, relative to April, of 0.2 percentage point for 2016, and 0.1 percentage point for 2017. As in the most recent WEO forecast vintages, growth is primarily driven by commodity importers, but its pickup reflects to an important extent gradually improving conditions in large commodity exporters that experienced recessions in 2015–16, in many cases caused or exacerbated by declining commodity prices.

- **China's** growth is expected to remain at 6.7 percent in 2017, the same level as in 2016, and to decline only modestly in 2018 to 6.4 percent. The forecast for 2017 was revised up by 0.1 percentage point, reflecting the stronger than expected outturn in the first quarter of the year underpinned by previous policy easing and supply-side reforms (including efforts to reduce excess capacity in the industrial sector). For 2018, the upward revision of 0.2 percentage point mainly reflects an expectation that the authorities will delay the needed fiscal adjustment (especially by maintaining high public investment) to meet their target

Please note: this publication is intended for academic use only, not for commercial purposes

of doubling 2010 real GDP by 2020. Delay comes at the cost of further large increases in debt, however, so downside risks around this baseline have also increased.

- Growth in **India** is forecast to pick up further in 2017 and 2018, in line with the April 2017 forecast. While activity slowed following the currency exchange initiative, growth for 2016—at 7.1 percent—was higher than anticipated due to strong government spending and data revisions that show stronger momentum in the first part of the year. With a pickup in global trade and strengthening domestic demand, growth in the ASEAN-5 economies is projected to remain robust at around 5 percent, with generally strong first quarter outturns leading to a slight upward revision for 2017 relative to the April WEO.
- In **Emerging and Developing Europe**, growth is projected to pick up in 2017, primarily driven by a higher growth forecast for Turkey, where exports recovered strongly in the last quarter of 2016 and the first quarter of 2017 following four quarters of moderate contraction, and external demand is projected to be stronger with improved prospects for euro area trading partners. The Russian economy is projected to recover gradually in 2017 and 2018, in line with the April forecast.
- After contracting in 2016, economic activity in **Latin America** is projected to recover gradually in 2017–18 as a few countries—including Argentina and Brazil—exit their recessions. In comparison to the April 2017 WEO, Brazil's growth forecast for 2017 is now higher in light of the strong first quarter, but ongoing weakness in domestic demand and an increase in political and policy uncertainty will be reflected in a more subdued pace of recovery, and hence in lower projected growth in 2018. Mexico's growth forecast for 2017 is revised up from 1.7 to 1.9 percent on the back of strong activity in the first quarter of the year, with an unchanged forecast for 2018. Revisions for the rest of the region are mostly to the downside, including a further deterioration of conditions in Venezuela.
- Growth in the **Middle East, North Africa, Afghanistan, and Pakistan region** is projected to slow considerably in 2017, reflecting primarily a slowdown in activity in oil exporters, before recovering in 2018. The 2017–18 forecast is broadly unchanged relative to the April 2017 WEO, but the growth outcome in 2016 is estimated to have been considerably stronger in light of higher growth in Iran. The recent decline in oil prices, if sustained, could weigh further on the outlook for the region's oil exporters.
- In **Sub-Saharan Africa**, the outlook remains challenging. Growth is projected to rise in 2017 and 2018, but will barely return to positive territory in per capita terms this year for the region as a whole—and would remain negative for about a third of the countries in the region. The slight upward revision to 2017 growth relative to the April 2017 WEO forecast reflects a modest upgrading of growth prospects for South Africa, which is experiencing a bumper crop due to better rainfall and an increase in mining output prompted by a moderate rebound in commodity prices. However, the outlook for South Africa remains difficult, with elevated political uncertainty and weak consumer and business confidence, and the country's growth forecast was consequently marked down for 2018.

source: IMF World Economic Outlook Update, July 2017
+++++++++++++++

(6) Financial Times, 17 July 2017

China's investment in overseas ports hits $20bn in show of maritime clout

China is ramping up acquisitions of overseas ports as it expands its reach as a maritime power, doubling its investments in port projects over the past year to US$20 billion (S$27.4 billion) and pushing ahead with plans to open new shipping routes through the Arctic Circle.

Please note: this publication is intended for academic use only, not for commercial purposes

The locations of the ports set for Chinese investments cluster around three “blue economic passages” that Beijing named in June as crucial to the success of One Belt, One Road, a grand scheme to win diplomatic allies and open markets in around 65 countries between Asia and Europe.
A study by Grisons Peak, a London-based investment bank, found that Chinese companies have announced plans to buy or invest in nine overseas ports in the year to end-June in projects valued at a total of US$20.1 billion. In addition, discussions are under way for investments in several other ports, for which no value has been divulged.
This level of activity represents a sharp acceleration from the US$9.97 billion in Chinese overseas port projects in the year to end-June 2016, according to Financial Times estimates.
“In the past year, China has now announced … all three of its blue economic passages, so it is not surprising to see this significant level of increased investment in ports and shipping,” said Mr Henry Tillman, chief executive of Grisons Peak.
The importance of one of the three maritime routes, which runs from China to the Indian Ocean and then onwards to the Mediterranean, shows up particularly clearly in the newly announced investments. Four separate initiatives are set for Malaysia, with Chinese company investments scheduled for the US$7.2 billion Melaka Gateway, the US$2.84 billion Kuala Linggi Port, the US$1.4 billion Penang Port and the US$177 million Kuantan port projects, according to company announcements.
In Indonesia, Ningbo Zhoushan Port company plans to invest US$590 million into the Kalibaru project, an expansion of Tanjung Priok, the country’s largest port. Ms Jing Gu, an expert at the Institute of Development Studies at Sussex University, said the focus on South-east Asia represented an example of Beijing’s efforts to create “good neighbourly” relations in the region.
“However, it is also rather controversial with continuing issues over territorial sovereignty and over China’s economic strength and its resources needs,” added Ms Gu, who is director of the university’s Centre for Rising Powers and Global Development.
Another of the three maritime routes attracting attention is that from China to Europe via the Arctic Ocean. This route could potentially cut the journey time by several days. One planned project involves a new deepwater port near Arkhangelsk, on Russia’s White Sea, and a railway deep into Siberia.
A plan by Poly Group, a Chinese state-owned enterprise, to lead investment in both the port and railway received new impetus this spring with a visit to Arkhangelsk by Mr Wang Yang, a Chinese vice-premier, Chinese officials said.
Klaipeda, a Lithuanian port and feeder for Arctic route traffic, has attracted investment proposals from China Merchants, a port operator, to build a large new container port. Talks have also taken place over a potential Chinese port investments at Kirkenes, a Norwegian port on the Barents Sea, and at two ports in Iceland, according to people close to the discussions.
Some of China’s port investments raise questions over whether Beijing is pursuing an undeclared strategic agenda in the guise of pursuing commerce, said Mr Jonathan Hillman, a director at the Centre for Strategic and International Studies. “Strategically, port ownership opens the door to non-commercial activities like hosting military forces and collecting intelligence, said Mr Hillman.
“But aside from grand strategy, there’s also lowly politics. Interest groups in China and partner countries are eager to participate in new projects, and now they can do so under the expansive banner of China’s Belt and Road Initiative,” he added.
Source: Financial Times
+++++++++++++++

(7) Lloyd’s List, 13 July 2017

Chinese port players to rival global giants within 10 years

China’s rapid overseas expansion in recent years is just a start, says Drewry managing director Timothy Power

Please note: this publication is intended for academic use only, not for commercial purposes

CHINESE port companies are expanding overseas at a blistering pace, and will become truly worldwide players to rival the existing giants within 10 years, according to Drewry managing director Timothy Power.

While Cosco Shipping taking over Orient Overseas (International) Ltd demonstrates China's global ambition in the shipping line sector, its rapid expansion in the ports industry should not be ignored, said Mr Power during the 2017 China Maritime Forum in Ningbo.

As per his calculation, between 2007 and 2016, the country's three largest port operators — Cosco Shipping Ports, China Merchants Port and Shanghai International Port Group — have seen their total equity throughput grow from 33.7m teu to 82.6m teu.

Equity throughput is the throughput of all of a company's terminals, based on the company's equity share in its terminals.

Meanwhile, the contribution by the three port operators' overseas handling increased from about 7% to 13%.

When compared to the current top four industry leaders, Hutchison Ports, PSA, APM Terminals and DP world, the three Chinese giants' equity throughput made up 47% of that of their foreign competitors in 2016, versus just 24% in 2007.

"So the race is on, ladies and gentlemen," said Mr Power.

Only a few years ago, China's expansion in overseas ports was still quite yawn-inducing, except for Cosco Shipping's earlier exploration in Singapore and Greece. But the process has been accelerating, leading to "an explosion of activities" since 2012, the seasoned consultant added.

"Chinese port companies are involved extensively in Europe, west coast of Africa, and more extensively in the US."

To name some: Cosco Shipping Ports just announced its agreement in June to acquire a 51% stake in Noatum Ports, which operates a number of major container terminals in Spain, while in the same month SIPG sold 15% stake in itself to Cosco Shipping, which has a 67% equity of the port authority in Piraeus. Because of that, the three parties managed to sign an agreement to co-operate in project planning, staff training and information exchange.

China Merchants Port, the port arm of state conglomerate China Merchants Group, is certainly no slouch in expansionist moves. It now has investments in 49 ports across 19 countries, including the acquisition of 49% equity in Terminal Link and 23.5% in Port de Djibouti.

Many of these projects are incorporated into China's Belt, One Road initiative, the masterplan produced by the country's president Xi Jingping to promote trade and other economic ties between nations in continents across Asia, the Middle East, Africa and Europe.

"The construction of the Maritime Silk Road ports is an important carrier of the new wave of globalisation," said China Merchants Port vice-chairman Hu Jianhua, also speaking at the Ningbo Maritime Forum.

"[Our port] projects are not just for show… they will assure us of a more stable and further path in the Belt and Road initiative."

Mr Power tended to agree that the Chinese port players were not finished yet in their overseas ventures. "This, is in my opinion, is just the beginning."

Please note: this publication is intended for academic use only, not for commercial purposes

However, he argued that the expansion activities were even going beyond the Belt and Road countries. "It's clear that it's a global ambition."

Another Chinese firm, Landbridge Group, could well validate Mr Power's argument. The privately owned conglomerate, whose business ranges from oil refining to hotels, acquired Panama's largest port Margarita Island in May last year, on the heels of its purchase of a 99-year lease on Darwin's commercial port in Australia.

A port expansion project on Margarita Island kicked off last month.

Opposition voice

The swelling global presence of Chinese port players has caused some anxiety.
Such views were expressed "in quite strong terms" in a recent conference in Europe where, according to Mr Power, one speaker said ports should be taken as national strategic assets and the stake that overseas investors were allowed to take in domestic terminals should be limited to below 50%.

"And if they want 51%, they will have to give us 51% when we want to invest in their markets," Mr Power quoted the speaker as saying.

This strong protectionist argument represented a number of people there, he added.

Nevertheless, port authorities that attended the European conference did not approve of such arguments.

They said the Chinese port companies were good business partners, and brought much-needed investment, according to Mr Power.

Moreover, the port authorities, which are the actual landlords of the port, contended that they were not selling the land to the Chinese investors, but the right to use the port, and hence giving out a 51% stake was "perfectly OK".

Mr Power said: "China can invest and come more. I think that is the view going to prevail."

He added: "This is just a start. We'll see the Chinese ports as truly global companies within the next 10 years."
++++++++++