EXAMINER'S REPORT NOVEMBER 2018

ECONOMICS OF SEA TRANSPORT & INTERNATIONAL TRADE

General comments.

The majority of the essays were well structured, supported by sound theory and industry specific examples. Candidates who secured passes must be commended for their grasp of theory and practice, which came out very strongly in the sharpness and quality of their analysis, appreciation of global shipping and economic issues and their impact on state of the world economy.

Candidates are advised, as always, to study the course material thoroughly and to pay particular attention to the definition of key concepts and theories, their supporting graphs and diagrams, such as: the law of supply and demand, utility and price, elasticity, opportunity cost, economies of scale, derived demand and the price mechanism, international trade, as well as the structure, content and length of essays

1. Explain the relationship between long-run costs and output in ship management. Use a graph to support your answer.

This question required candidates to explain the relationship between long run costs and output. The best answers defined long run cost:

-As the period of time in which it is possible to vary all input quantities used in producing a given level of output and that in the long run fixed costs do not exist, because every element used in the production process can be varied and explained that;

-Long run average costs may fall, as output levels rise;

- Long run average costs may remain unchanged as output levels change;

-Long run average costs may rise as output levels rise and supported this argument with an appropriate graph/diagram ;

The above was also used to explain how the understanding of this relationship aids ship management.

A good relevant graph and conclusion was necessary to a secure a good mark.

2. What are the advantages and disadvantages of public ownership of ports? What economic and political factors can influence this?

A historic preview of this industry should provide a solid base for a good essay.

Advantages of Public Ownership:
Roman Law built the concept that the foreshore was in dominium populi, that is for all the people to use freely, under the authority of government. With five consequences: (i) the foreshore, that is the port, would be freely accessible to all, since it belonged to all; (ii) being open to all, competition would exist, whenever possible and reasonable, between port operators; (iii) the foreshore could not be sold to any private party without the agreement of all, since it was common property; (iv) for the port would be kept under some public management, since government represented the country ; and (v) such management would be in the common interest, not exclusively in any corporate interest (including the interest of the corporate body to which management powers had been delegated) since the owners were the people.

Disadvantages:
- Lack of capital and associated investment in manpower development, infrastructure, equipment, communications, security, technical expertise and marketing
- inefficiency, nepotism, corruption and poor management skills
- government interference and bureaucracy
- Subsidies and the resultant dependency syndrome

Mention and discussion of the two principles or doctrines on which port development tends to be based is also important :

1.Anglo-Saxon or Peninsular doctrine

2. The European doctrine.

Anglo–Saxon Doctrine states:
- Notwithstanding the benefits of the hinterland , that the port should stand on its own feet, not incur losses and aim to make a profit
- This view has been sharpened by the privatisation of Associated British Ports
- ABP privately owned company

European doctrine states:

- As part of the social structure of the whole region
- value of the port should be assessed not solely on the accounts of the port but in terms of the progress of the industry, transport, and trade of the port region or hinterland.

This view lies behind the development of many European ports and the basis upon which subsidies for port development are justified.

Further, the popularity of privatisation has led many observers to raise the question of the link between ownership and economic efficiency. Some argue that private ports are more efficient than public ports, while others argue that ports should be run as part of a nationally integrated plan and the best way of achieving this is through state ownership.

Professor Goss's analysis of the relative merits of the ports of Singapore and Hong Kong was also used by some candidates in support of their arguments and argued that:

- Both are regarded as being very efficient
- Singapore is state owned
- BUT Hong Kong is private

Conclusion: Ownership is not the key issue; management, competence, investment and cultural factors were of far greater significance.

3. Explain import tariffs and voluntary export restraints and how they may be used to restrict trade. Use current examples to support your answer.

Candidates that scored highly explained what tariffs are, and explained that they are often created to protect infant industries by making imports goods more expensive than locally produced ones.

That levying of tariffs is often highly politicised, increased competition from imported goods can threaten domestic industries and domestic companies may fire workers or shift production abroad to cut costs, which results in high unemployment and a less happy electorate and, finally the unemployment argument often shifts to domestic complaining about cheap labour.

A Voluntary Export Restraint is a government imposed limit on the quantity of some category of goods that can be exported to a specified country during a specified period of time. Typically VER's arise when industries seek protection from competing imports from particular countries.
VER's are often offered by exporting country to appease the importing country and deter it from imposing explicit less flexible trade barriers.
Are implemented on exports from one specific country to another, and applied to products ranging from textiles, footwear, steel, machine tools and cars.
Ver's were popular in 1980's, when they did not violate countries agreements under GATT.
In 1994 WTO agreed not to implement any new VER's. After 2010 VER's have become incompatible with WTO trade rules.

Some of the current examples included; US administration Tariffs EU & Turkey eg Steel and Aluminium on EU & Chinese, sea foods, furniture, lighting products, chemicals, plastics, cars seats etc.
USA trade war with EU, China and Turkey and alluded to the political nature of the tariffs and the consequences of a full scale global trade war.

The answer should be finished with a conclusion.

4. Critically analyse the major factors that influence the determination of foreign currency rates between countries. Use current examples to support your answer.

Good graphs, definition of key concepts supported by relevant examples were required.
Some of the best answered included the following:

Exchange rate is the price of a nations' currency. The more competitive an economy the more its products are sought, as well as its currency and its strength and convertibility.

The rate of exchange between international currencies affects the prices of exports and imports and hence the current account on the balance of payments and has a direct effect on the economic performance of a country .Trade, purchase of goods by one country requires payment in country of origin(of the good) in the currency of that country.

The Purchaser has to provide funds which calls for the purchase of currency of supplying country, as more and more goods are purchased, so supply of currency decreases in value. Normally, this is balanced by exports (of a good) from buying country. Imbalances between result in exchange rate adjustments. The level of overseas investment, FDI as well as increased level of productivity and competitiveness between countries / comparative advantage.

Other factors do influence exchange rates between countries such as: speculation, sanctions, embargoes, tariffs, public perceptions, and confidence in the economy.

Examples: Turkey: Politically motivated US sanctions imposed on Turkey cause market turmoil, which Turkish Central Bank attempted- but failed to soothe with a series of market boosting measures
US doubling of tariffs on Turkish steel and aluminium products, worsening the position of the Turkish currency, the Lira.

Russian,Iranian, Venezuelan and Zimbabwean currency problems.
US /EU sanctions and embargoes.

Public perception / media coverage, Turkish interior ministry threatening legal action against 346 social media accounts it claimed posted comments about the weakening Lira '' in a provocative way'

An analysis of relevant economic factors , and other influences.

The answer should be finished with a conclusion.

5. Explain why bulk shipping demand is price inelastic. Use a graph to support your answer.

Candidates explained that freight shipping is an intermediate part of a process of production and the demand for shipping, like the demand for raw materials or intermediate goods , is a derived demand. The demand is derived from the consumers' demand for the final product.

To score maximum marks, candidates must explain in detail, that derived demand has a particular set of rules relating to its elasticity, as follows:

Rule 1 There are few, if any substitutes for shipping.

Rule 2 Although, there may be alternative sources of the product, these too will normally require transportation by sea.

Rule 3 Freight rates are a small proportion of final costs.

Rule 4 the elasticity of demand for the final product will be an important factor in the elasticity of the derived demand for shipping.

A simplified model of the whole idea can be put into the following words:

The demand elasticity of demand for shipping = Transport cost is a fraction of final price X Elasticity of demand for the final consumer product.
The model combines the ideas of lack substitution and confirms that, in general, the derived demand

for cargo shipping will be inelastic. Given that on average , freight rate constitutes only one-tenth of the import value of a commodity, it follows that a 30% rise in the freight rate only increase the import cost by 3%.

The answer should be finished with a conclusion.

6. Using a country of your choice analyse the pivotal role that deep sea trades have in its economic growth and prosperity.

The best answers explained, that the power of division of labour depends on transport, and herein lays the critical role of deep sea shipping in world economic growth and development.

The demand for shipping is dependent upon the amount of international trade between countries. Seaborne trade accounts for the bulk of international movements. About 90% of world trade volume is carried by sea. The level of demand is dependent upon a number of factors, the most important of which are:

- Level of world economic activity
- The volume of seaborne trade generated and its major commodities
- The distance over the cargo is hauled
- External factors and events

Major factors in the level of demand for seaborne trade, in the long run is dependent upon elements such as population and changes in standards of living.
The spectacular growth in world trade has generated a corresponding growth in the demand for transportation services.

The answer should be finished with a conclusion.

7 Discuss why freight rates can differ by the direction of freight transportation.

Freight rates on the three major liner trade routes indicates their marked difference between pair wise direction of shipment, for example:

Major Trade Routes – Freight Rates Higher (+) Lower (-)

Transpacific	Europe – Asia	Transatlantic
Asia - USA +	Europe – Asia -	USA – Europe -
USA – Asia -	Asia – Europe +	Europe – USA +

Key factors: Economic geography

How transport prices affect locations of economic activities is the fundamental message of new economic geography.

Key factors that impact the directional imbalance of freight rates include:

- location of industrial, manufacturing and production establishments
- location of raw materials
- concentration of populations and their economic activities
- consumption patterns and living standards of regions
- exclusive production areas or regions of certain goods and products

- value of cargoes

When demand for transport from a bigger region to a smaller is larger than that in the opposite direction, the price of the services in the former direction is higher than that in the latter direction, which implies that exports of the bigger region become more expensive than those of the smaller region at the places of consumption ceteris paribus.

Volume of Trade
One of the most important reasons for the imbalance of freight rates is the volume of trade.
In a situation where the demand for the front haul lies above the back haul , an equilibrium is realized when the sum of the demand price of the front haul and that of the back haul at a particular number of trips equals the cost per round trip.
The cost per round trip is what matters, because transport firms produce transport services in two directions – jointly and face a physical constraint as equipment has to return to a home port- 'return constraint' .

The answer should be finished with a conclusion.

8. Answer BOTH parts of the question:
a) Describe FOUR examples of typical dry bulk cargoes.
b) Comment on the main factors underpinning the growth or decline of ONE of these cargoes over the last few years.

The best essays fully utilised the map provided thereby demonstrating their knowledge of commercial geography.

Brief overview of the World Dry Bulk Market; ships and the dry bulk cargoes that they haul:

Iron Ore.
Major exporters: Brazil and Australia India, Chile, South Africa, Venezuela and Peru.

Importers: Major steel producing countries: China, Japan, Germany, India, Belgium, South Korea, UK, Italy and Taiwan.

Thermal coal.
Generation for electricity, main suppliers – Australia , South Africa, China, Colombia , Indonesia.

Main importers: South Korea, China, Taiwan, UK and France (diminishing import volumes due to EU emissions caps, implications).

Grain.
Five major exporters: USA, Canada, Australia, EU and Argentina, year on year variations in production and movement, droughts, crop failures and climate change and disasters: Main importers China, Egypt, Sub Saharan Africa and Asia.

Also comments on food shortages, crop failures and disasters in key production, and consumption areas.

Bauxite.
Major exporters Guinea, Sierra Leone, Indonesia, Australia , India , Brazil.

Main importers: China, USA, Ukraine, Ireland onward shipment to UK, Iceland and Spain.
Overall global picture of the trade in the mentioned commodities, current and future growth patterns etc.

The answer should be finished with a conclusion.