GLOBALIZATION – SLOWING, REVERSING, CHANGING? – IMPLICATIONS FOR PORTS AND WATERBORNE TRANSPORT INFRASTRUCTURE

by

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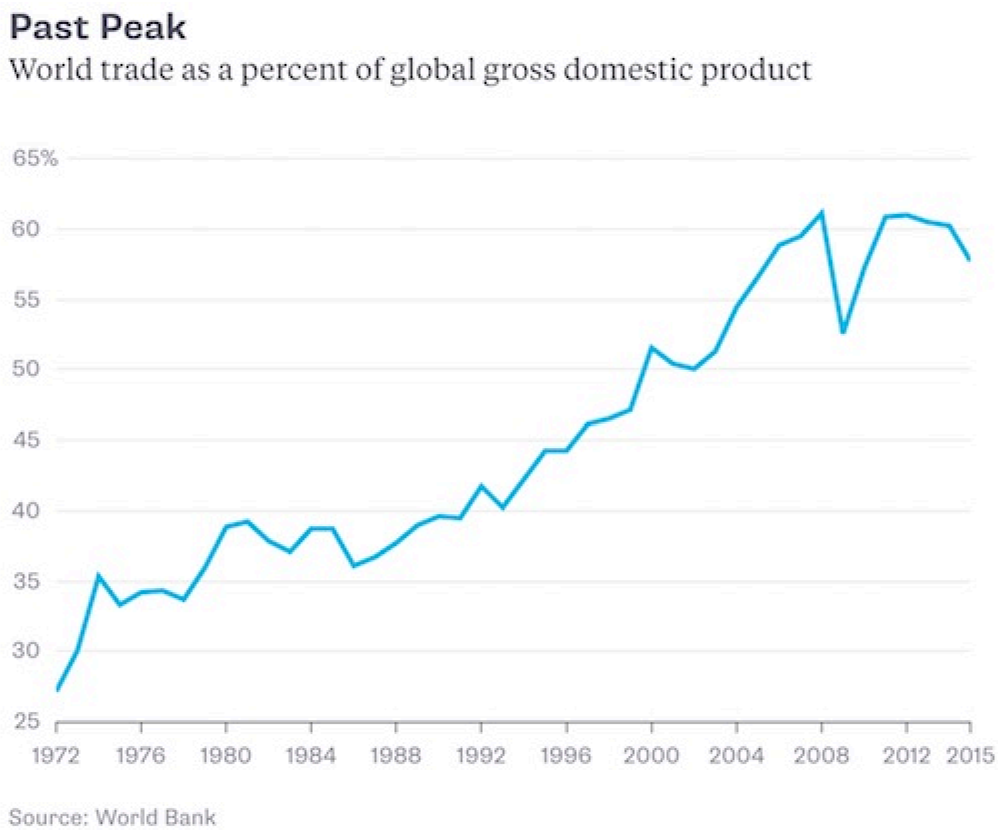
There are signs that a dominant trend over the past several decades, globalization, is slowing, and maybe even reversing, or perhaps changing into a new form of globalization driven by data rather than trade in goods. A classic indicator of globalization is trade as a share of GDP. This ratio peaked in 2008 and seems to be stalled, or even declining. Is this a blip, or an inflection point?



Traditional economic thinking views globalization as a pathway to prosperity, and indeed between 1980 and 2015 average global real income rose by 120%. The rationale is that trade increases wealth because it makes nations more efficient by allowing them to specialize in what they do best, sell that, and buy other needed items from countries who can produce them more efficiently.

Recently, however, the downsides of globalization have become apparent, as evidenced by the backlash of workers in the U.S. and Europe as manufacturing and other jobs moved to nations with cheaper labor. The benefits of globalization and consequent increased trade have not been distributed evenly around the world, or even within nations. This has spawned a rise in protectionist sentiment and policies, especially evident in the U.S. and the U.K. Global Trade Alert, a trade monitoring group, counts nearly 7,000 protectionist measures enacted worldwide since the recession of 2009. According to the World Economic Forum, one institutional risk that is likely to intensify in 2018 relates to the World Trade Organization and its ability to resolve trade disputes. Trade wars are even a possibility.

In response to slowing globalization, some banks and corporations are developing strategies for a more localized world. The World Bank reported that global supply chains stopped growing in 2011. During the previous two decades they had expanded about 4% a year. Multinational companies had been building global supply chains in the 90's and 2000's, but now this trend is reversing as companies localize their production and import fewer components for product assembly. Another sign of slowing trade is this statistic from the World Trade Organization: between 2011 and 2015 the value of global merchandise exports went down by 10%. This is the largest drop over a four year period in post WWII history.

The major impact to ports of these shifts is slower growth. Fundamental structural changes in the container shipping industry and global trade are impacting throughput volumes. In the 1990s, container volume growth was 3.5 times global GDP growth; from 2000 to 2009 it was 2.7 times global GDP growth, and since 2010 it has been moving towards par. One key factor contributing to this slower growth is the maturing container industry. The container industry is maturing because there are few goods left which can be containerized. So ports may be dealing with overcapacity, and consequent increased competition for the remaining traffic and cargo, in the near future.

According to some analysts, a wave of "reshoring" is imminent as new manufacturing technologies, such as 3-D printing, displace labor. However, labor costs are not the sole determinant of manufacturing locations. Other factors include: proximity to demand; proximity to factor inputs; government policy; and political and macroeconomic stability.

Considering all of these driving forces and uncertainties, the optimistic and pessimistic views of experts at McKinsey & Company concur that container trade will continue to grow, more slowly than in the recent past, and that "peak container" isn't on the horizon. The flexibility of the container trade gives it some resiliency because different products can fill the same boxes. However, this contrasts with the likely fate of the crude-oil tanker industry, with the demand for oil forecast to peak in the 2030's with the rise of electric cars and trucks. Reliance on a single commodity with challenging prospects makes "peak tanker" a very real possibility.