International Chamber of Shipping
Shaping the Future of Shipping

Protectionism in Maritime Economies Study

Summary Report

2021

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Cover photo: Haikou, Hainan, China - 31 May 2020: Haikou cityscape with Xiuying Port Container Terminal, the main transportation hub for Hainan Pilot Free Trade Zone and Free Trade Port of China.
Source: DreamArchitect/Shutterstock.com

Est. 1921

The International Chamber of Shipping (ICS) is the global trade association representing national shipowners' associations from Asia, the Americas and Europe and more than 80% of the world merchant fleet.

Established in 1921, ICS is concerned with all aspects of maritime affairs particularly maritime safety, environmental protection, maritime law, employment affairs and trade.

ICS enjoys consultative status with the UN International Maritime Organization (IMO) and International Labour Organization (ILO).

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1. Overview

ICS has commissioned this major Study on 'Protectionism in Maritime Economies' to provide an assessment of those protectionist/restrictive trade policies and measures that are currently being implemented by governments worldwide, which may be preventing national economies from reaping the full benefits of having access to efficient maritime transport services.

In addition to serving as a tool to inform governments about the negative impact (on their national economies) of deploying protectionist/restrictive measures, this Study is intended to encourage the formulation of appropriate policy responses. The comprehensive analysis draws on data from, among other sources, the World Trade Organization (WTO), the Organization for Economic Co-operation and Development (OECD) and the World Bank.

A major feature of the Study is a new **Protectionism in Maritime Economies (PRIME) Index** and the allocation of a **PRIME score** to each of those countries for which comparable data is available. These form the basis for a new global ranking.

The Study focuses on 58 countries[1] from a wide range of geographic regions. These countries include most of the major providers and beneficiaries of maritime transport services, which collectively account for the majority of activity within the global economy.

The Country Profiles produced for this Study break down the PRIME scores for those countries which had comparable data available and summarise the impact of their national trade policies. These Country Profiles are available on the **ICS website**.

The Study also explores the benefits that would flow to national economies from the reduction or removal of trade restrictive policies by governments, using a number of alternative scenarios for potential reform. Through these scenarios, the Study demonstrates that all national economies would benefit from the removal of remaining barriers to the conduct of efficient international maritime trade, revealing also that trade and real GDP benefits would be best achieved through a combination of a global agreement on maritime transport services and 'across the board' domestic reforms.

The full Study was prepared by Professor Craig VanGrasstek, Harvard Kennedy School of Government, with Dr Ben Shepherd, Developing Trade Consultants. It is available for free to ICS Members and for sale as an ebook through ICS ebook partners. See the **ICS bookshop** for more details.

1 Algeria, Angola, Argentina, Australia, Belgium, Bulgaria, Brazil, Canada, Chile, China, Croatia, Cyprus, Denmark, Egypt, Estonia, Finland, France, Ghana, Germany, Greece, Hong Kong (China), India, Indonesia, Ireland, Italy, Japan, Kenya, Korea (Republic of), Kuwait, Latvia, Liberia, Lithuania, Malaysia, Malta, Mexico, Myanmar, Netherlands, Nigeria, Norway, Panama, Pakistan, Philippines, Poland, Portugal, Romania, Russian Federation, Saudi Arabia, Singapore, Slovenia, South Africa, Spain, Sweden, Tanzania, Thailand, Turkey, United Kingdom, United States, Vietnam.

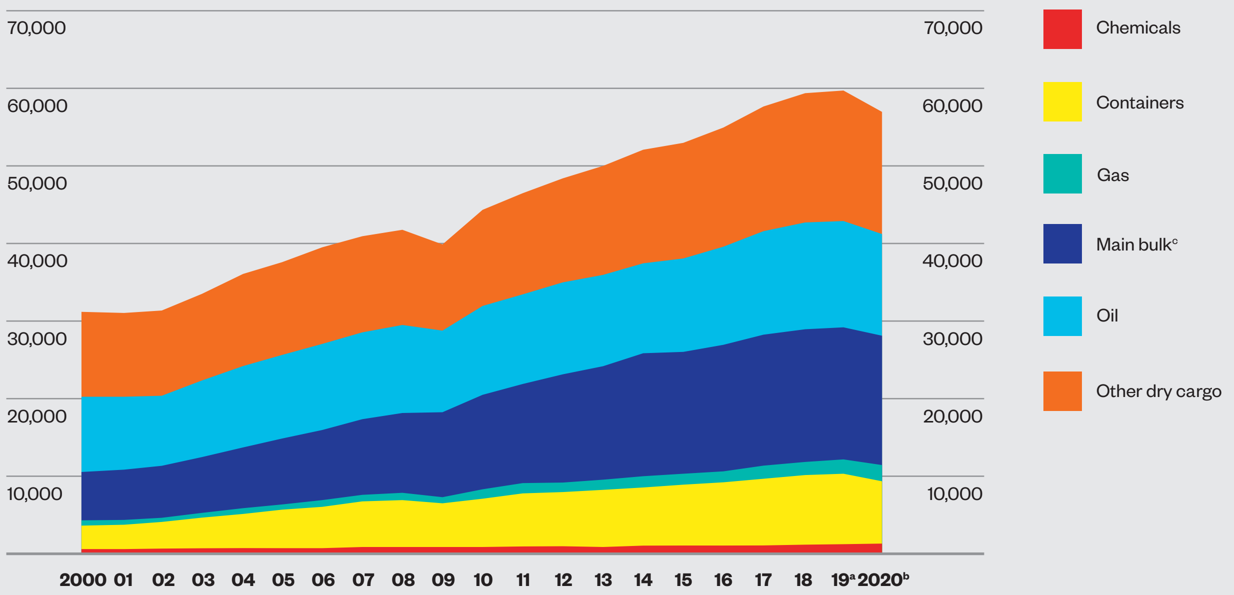
Comparable data was not available for some of the focus countries, namely Algeria, Angola, Bulgaria, Croatia, Cyprus, Ghana, Kuwait, Liberia, Malta, Romania, Saudi Arabia and Tanzania. While these countries have not been included in the global ranking as a result, individual country profiles are provided for all countries in the Study. Where data permits, some of these countries are also covered in parts of the analytical chapters. European Union countries analysed in the Study – for which comparable data is available (22 in total) – are ranked separately in the global PRIME Index. However, they are all assessed jointly under a single profile.

2. Background

The global maritime transport industry facilitates sustainable development and the improvement of living standards amongst the world's expanding population; moving energy, raw materials and food, plus manufactured components and products.

About 90% of global trade, by volume, is carried by sea[2], and the United Nations Conference on Trade and Development (UNCTAD) estimates that, in 2019, around 11 billion tonnes of cargo was transported by shipping. Maritime trade has also doubled between the years 2000 and 2018[3], assisted by the widespread acceptance of free trade principles, fair competition and open shipping markets.

Figure 1: World seaborne trade in billions of tonne-miles



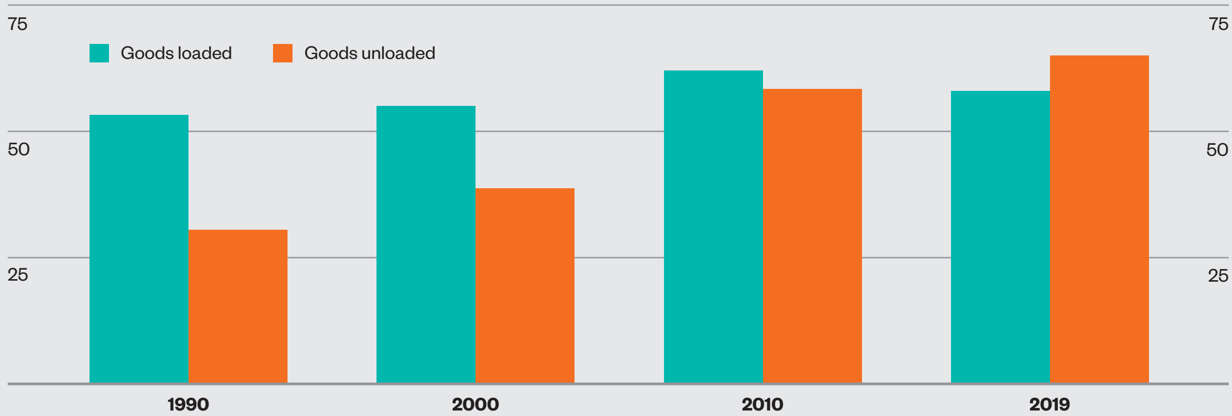
Source: UNCTAD based on data from Clarksons Research [a] *Estimated* [b] *Forecast* [c] *Includes iron ore, grain and coal*

According to UNCTAD, about 60% of maritime transportation activity now serves the economies of developing nations. Without an efficient global maritime transportation sector it would be impossible for 21st Century economies to function.

2 This excludes intra-EU trade and pipelines.

3 Maritime trade growth fell by 0.5% in 2019 due to trade tensions and tariffs, and by roughly 4.1% in 2020, due to the COVID-19.

Figure 2: Increase in developing countries' share of global seaborne trade by volume percentage of goods loaded/unloaded at their sea ports



Source: UNCTAD, Review of Maritime Transport 2018 (UNCTAD/RMT/2018)

It is widely recognised that the WTO and the current multilateral trading system must be reformed to achieve meaningful and mutually beneficial improvements, which fully reflect the current and future needs of global trade. With respect to maritime transport services, the shipping industry is strongly in favour of the resumption of full negotiations under the WTO General Agreement on Trade in Services (GATS) – or some other multilateral mechanism – which includes a focus on maritime transport.

Significantly, commitments by governments on maritime services were not codified by GATS when it entered into force in 1995, and the commitments subsequently made by WTO members under the Doha Round of negotiations were not definitive. These commitments therefore remain uncodified, which means that maritime services are more vulnerable than many other major industrial sectors to the unilateral application by governments of protectionist/restrictive measures.

In view of the strategic importance to national economies of an efficient international shipping sector, bringing legal certainty to maritime transport services under the WTO, or a similar multilateral process, should be of fundamental interest to governments.

Through this new Study, ICS is therefore seeking to encourage a serious discussion about resuming the WTO GATS negotiations with a particular focus on concluding a multilateral agreement on maritime transport services.

While a multilateral trade agreement on maritime transport is important and desirable, the Study nevertheless suggests that the current absence of such an agreement is not the only factor impeding national economies from reaping the full benefits of efficient maritime transport services.

In particular, the Study suggests that it is self-defeating for any country to hold its own shipping reforms hostage to any lower level of ambition of its trading partners. As highlighted in the Study, national economies would be best served by moving as far as they can towards facilitating open markets and fair competition in the maritime sector – even if this means doing so individually, outside of the framework provided by a multilateral agreement.

The Study also concludes that governments have more to gain by removing or reducing non-tariff restrictions than by focusing on traditional tariffs alone, noting that the average non-tariff restrictions captured in an individual country's PRIME score (level of restrictiveness) are four times higher than traditional tariff measures would suggest. From a policy standpoint, this finding demonstrates the need to move beyond traditional tariffs in reform discussions and negotiations.

3. Purpose and Scope

The main purpose of this Study is to catalogue the various ways that individual countries are acting negatively to reduce fair competition in the maritime transport sector and associated fields, to the detriment of their national economies.

Using data from WTO's Integrated Trade Intelligence Portal (I-TIP) and other sources, the Study translates those non-tariff restrictive measures into 'tariff equivalents', in order to quantify the costs they impose, while highlighting the benefits – for their national economies – that would result from the removal or reduction of these barriers.

This Study then explores two key areas:

- The costs of protectionism, using a new tool developed for the Study, referred to as the **Protectionism in Maritime Economies (PRIME) Index** and corresponding **'PRIME scores'**; and
- The benefits of liberalisation, exploring alternative **scenarios for potential reform.**

4. The Costs of Protectionism

4.1 The 'Prime Index' and the 'Prime Scores'

To calculate the costs of protectionism, the Study summarises the full range of individual countries' restrictions related to maritime transport services.

Based on an assessment of their individual levels of restrictiveness, each country covered by the Study – for which comparable data is available – has been attributed a PRIME score (46 countries in total). The PRIME score is a single number which allows general comparisons across the focus countries with comparable data, aggregating the distinct measures of a country's policies.

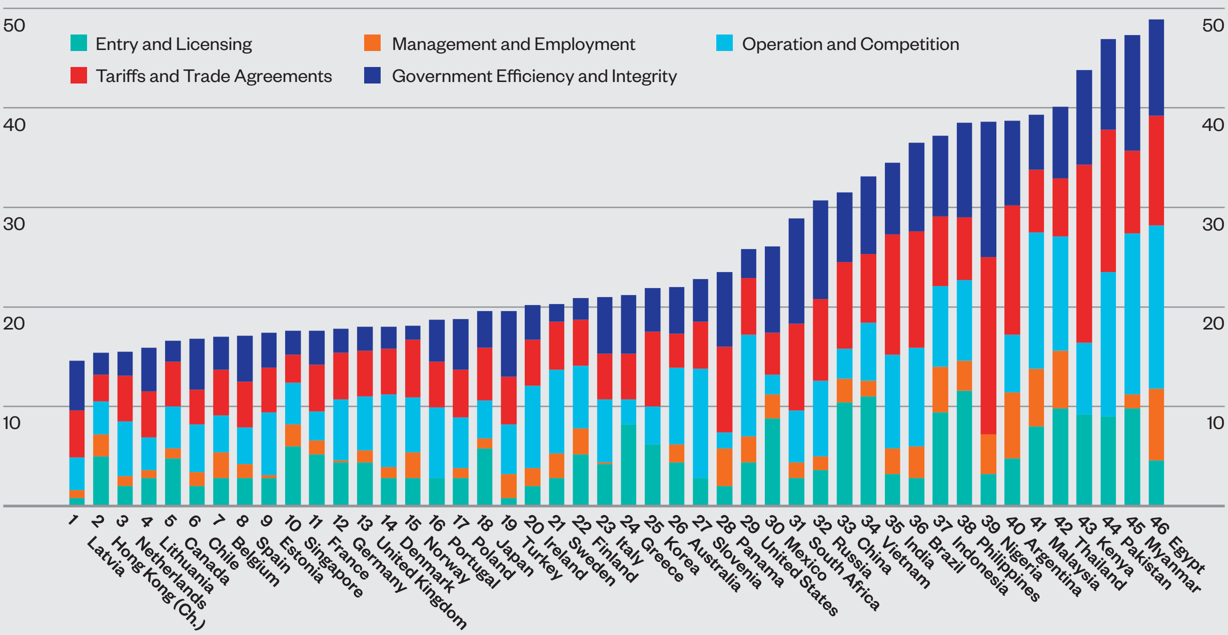
The individual PRIME scores form the basis for this new global ranking, known as the PRIME Index. The PRIME scores range from 0–100 points, with 100 being the worst possible score.

4.2 Global Ranking: The PRIME Index

Below is the order in which individual countries have been ranked, based on the PRIME Index calculations and their corresponding PRIME scores.

The exact order in which countries are listed, relative to each other, is affected by the weighting attributed to the various criteria used, which does entail some degree of subjectivity. Nevertheless, governments whose country has a higher PRIME score may wish to scrutinise their trade policies carefully, as they may be having significant negative impacts on their national economy; while those with a score that might be perceived as low does not justify complacency, as any PRIME score above zero suggests that there is still scope for improvement.

Figure 3: PRIME Index global ranking



Source: ICS/Craig Van Grasstek, Protectionism in Maritime Economies Study (ICS, 2021)

4.3 Basis for PRIME Index Calculations

The overarching criteria for the PRIME Index calculations consist of five general categories. Each of these may be further divided into a number of subcategories (14 in total), as outlined below. These subcategories encompass the wide range of elements (77 in total), which form the basis for the PRIME Index calculations. 62 of these elements are binary issues in countries' policies, meaning that a certain number of points are added for every policy that a country has in place. The remainder are related to issues such as average tariffs and a variety of governance indicators.

4.4 PRIME Index Categories and Subcategories

A. Entry and Licensing

1. Conditions on Market Entry in the Maritime Freight Transportation Sector
2. Conditions to Own and Register Vessels under the National Flag
3. Conditions on Licensing, Investment Screening, and Qualifications Relating to Market Entry

B. Management and Employment

4. Conditions on Management and Employment in the Maritime Freight Transportation Industry
5. Quantitative Measures Affecting the Movement of Persons in the Maritime Freight Transportation Industry

C. Operation and Competition

6. Conditions on Supply of Services in the Maritime Freight Transportation Industry
7. Government Procurement Measures in the Maritime Freight Transportation Industry
8. Regulations, Taxes and Fees in the Maritime Freight Transportation Industry
9. Government Involvement in the Maritime Freight Transportation Industry

D. Tariffs and Trade Agreements

10. Tariffs and Trade Agreements
11. Commitments in World Trade Organization Agreements

E. Government Efficiency and Integrity

12. Efficiency of Countries' Processing of Exports and Imports (Raw Values)
13. Efficiency of Countries' Processing of Exports and Imports (Index Values)
14. Measures of Governance

Appendix 1 of the Study contains a more in-depth analysis of these categories and subcategories, as well as their corresponding elements, all of which also serve as a basis for the global country ranking.

5. The Benefits of Liberalisation

5.1 The Scenarios for Potential Reform

To determine the benefits that would flow from the reduction or removal of trade barriers related to the maritime transport sector, the Study explores four alternative scenarios for potential reform. These range from a highly ambitious scenario in which all countries cut their individual PRIME scores by 50%, to a very modest one in which countries cut, by 10% only, the portion of their individual PRIME scores concerned with tariffs and trade agreements.

The analysis reveals that all countries would be better off in each of the scenarios than they would be without reform, albeit to differing degrees. The data also suggests that to reap the full benefits that the maritime transportation sector has to offer, governments would do well to view domestic reform and multilateral trade negotiations not as mutually exclusive alternatives but as complementary options.

The world map overleaf provides an overview of countries' real GDP increase under the highly ambitious Scenario 1. The full Study contains a more in-depth analysis of the scenarios.

The key findings and general conclusions of the Study are outlined in sections 6 and 7 of this Summary Report.

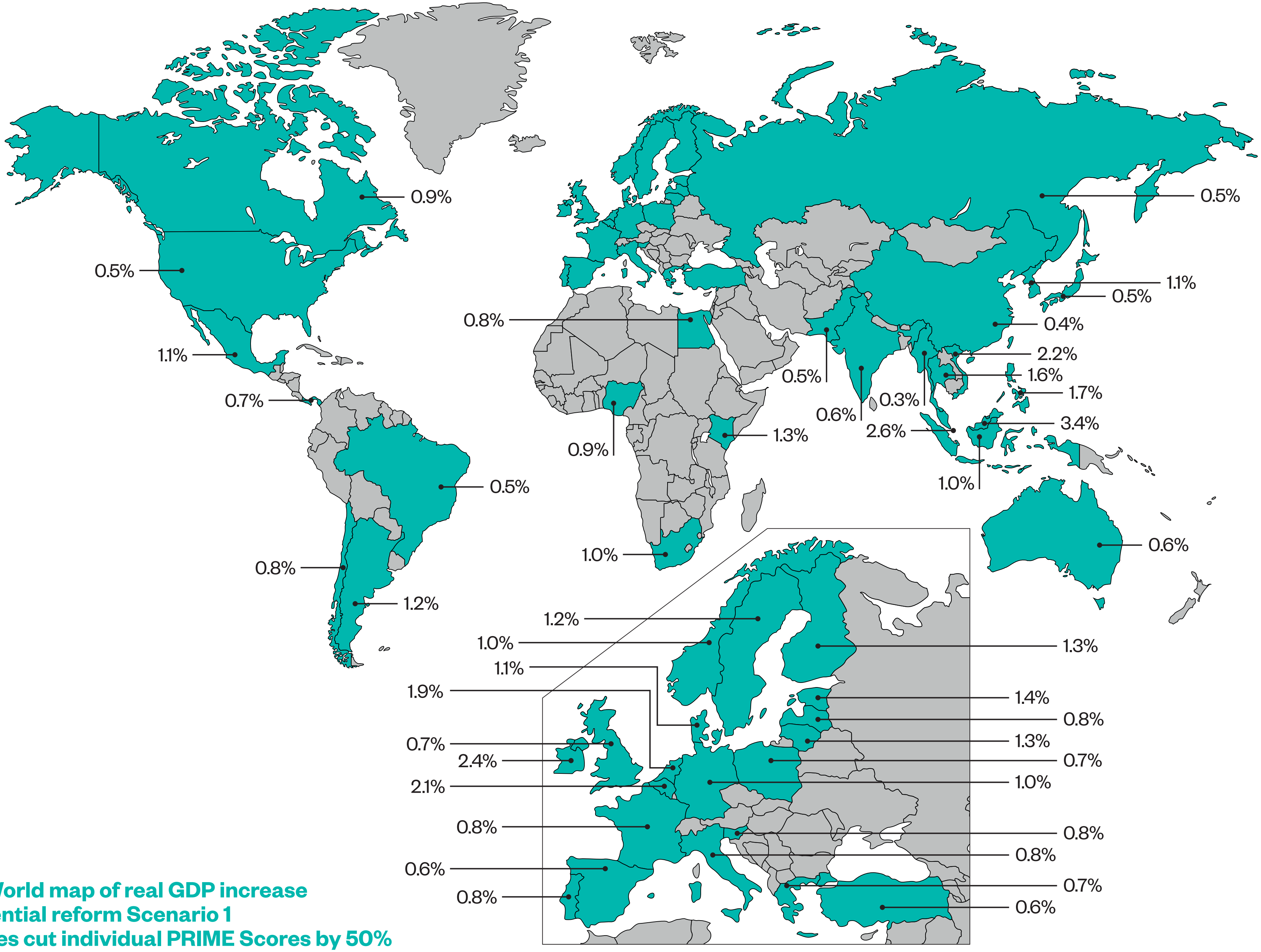


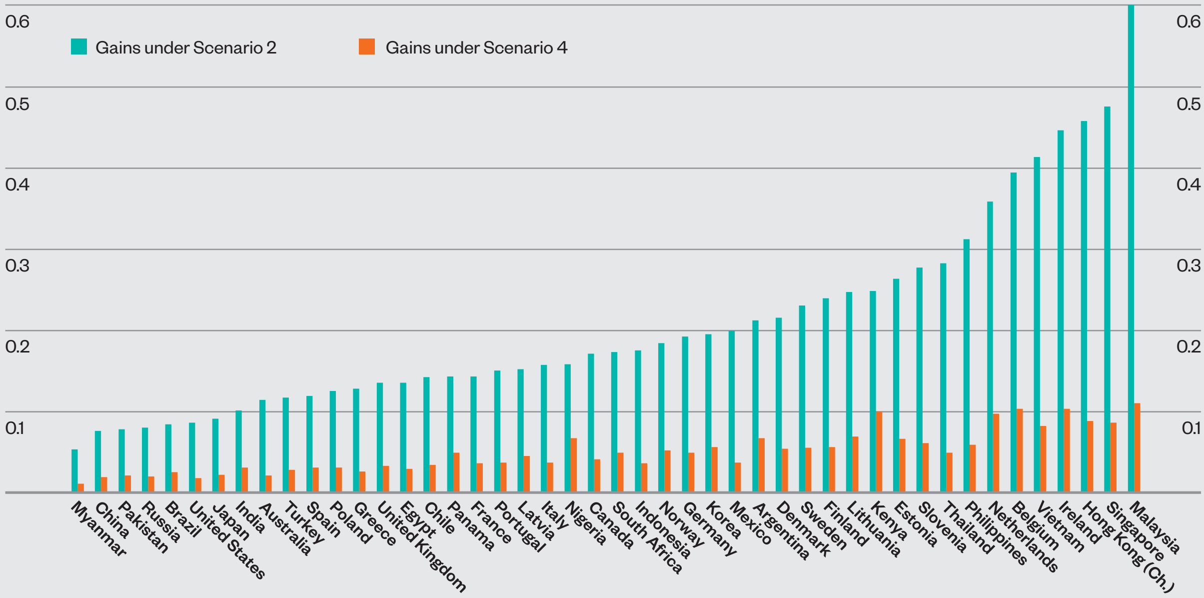
Figure 4: World map of real GDP increase under potential reform Scenario 1
All countries cut individual PRIME Scores by 50%

6. Key Findings

Finding 1:
There are four alternative pathways for reform toward sustainable maritime trade growth

Scenario 1 **Highly Ambitious**	All countries would cut their PRIME Scores by 50%: In this, the most ambitious scenario, an average country's total exports of all goods and services would rise by 21%, which corresponds to an average increase in a country's GDP of 1.1%. For the individual countries analysed, these GDP gains would range from 0.3% to 3.4%.
Scenario 2 **Modest and Equal Ambition**	In this more realistic scenario, all countries cut their PRIME scores by 10% through both negotiated and domestic (across the board) reforms, irrespective of income level. There are still substantial trade gains for all national economies, including increases in real GDP. While benefits would be smaller than under Scenario 1, they are still significant, with GDP gains ranging from 0.1% to 0.3% for most nations, and for a few nations they are in the range of 0.4% to 0.6%.
Scenario 3 **Modest and Unequal Ambition**	High-income countries cut their PRIME scores by 10%, and all other countries by 5%. The benefits would be smaller, especially for low- and middle-income economies, because a substantial share of the economic benefits from reform depends on the individual actions by the reforming country. Any decision to cut the PRIME score to a less ambitious degree amounts, in effect, to low- and middle-income nations denying themselves a greater degree of economic benefit.
Scenario 4 **Tariffs and Trade Agreements Only**	All countries cut their PRIME score on tariffs and agreements by 10%, through improvements based on changes made to countries' commitments in trade agreements only. Gains from this narrower scenario are much smaller than under Scenario 2. For an average country, the gains under this scenario are only about 25% of what they would achieve under the more ambitious Scenario 2. If countries limit their reforms to what might be gained from trade negotiations only, they would leave most of the potential gains on the table.

Figure 5: Gains from liberalisation under Scenarios 2 and 4 using percentage changes over the 2015 baseline GDP level

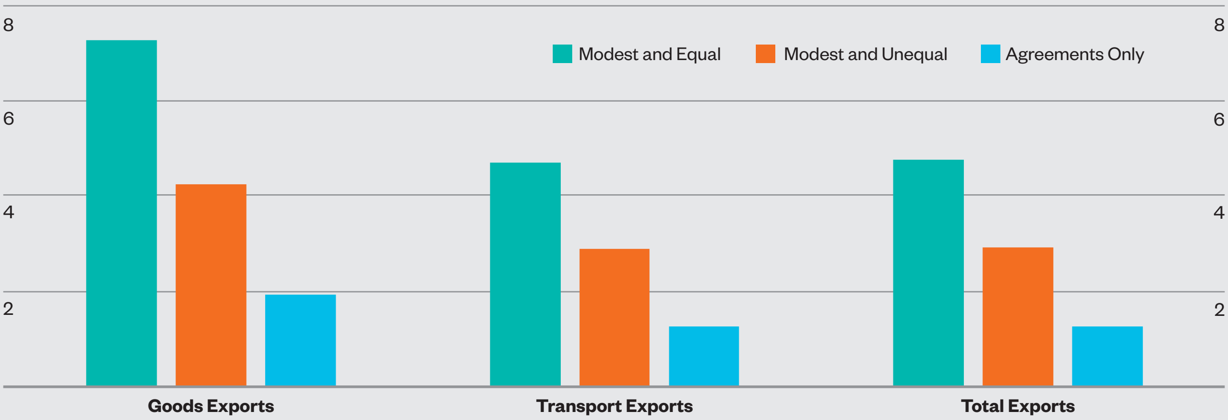


Source: ICS/Craig Van Grasstek, Protectionism in Maritime Economies Study (ICS, 2021)

Finding 2:
Low- and middle-income countries have the most to gain from any global agreement that results in broad liberalisation

1	The gains for low- and middle-income countries with respect to goods exports would be far higher in the 'modest and equal ambition' Scenario 2 (i.e. all countries cut their PRIME scores by 10%) than they would in a 'modest and unequal ambition' Scenario 3 (i.e. high-income countries cut their PRIME scores by 10%, and all other countries by 5%).
2	By contrast, for the high-income countries the different effects of these two scenarios would be modest.
3	Based on the calculations, countries that receive preferential treatment (i.e. cut their PRIME scores to a lesser degree of ambition) may actually be denying themselves the opportunity to reduce or eliminate policies that discourage investment and stifle efficiency.

Figure 6: Gains for low- and middle-income countries from liberalisation under Scenarios 2, 3 and 4



Source: ICS/Craig Van Grasstek, Protectionism in Maritime Economies Study (ICS, 2021)

Figure 7: Gains for high-income countries from liberalisation under Scenarios 2, 3 and 4

Source: ICS/Craig Van Grasstek, Protectionism in Maritime Economies Study (ICS, 2021)

Finding 3:
Regardless of economic development, all countries would benefit from a reduction of maritime protectionism even if they are to do so individually

1	The Study's calculations indicate that, no matter what their level of economic development, all countries would benefit from liberalisation of trade regimes in general, and by reduction of maritime trade protectionism in particular.
2	The data reveals that policy reform offers substantial gains in terms of trade and GDP. While results vary across countries, a substantial portion of gains on average (between half and two-thirds of each country's gains) can be achieved through unilateral action, even in the absence of global action.
3	While liberalisation in one country may be second best to global reform, it is greatly preferable to no reform at all. It would be self-defeating for any country to hold its own reforms hostage to the lesser ambitions of its trading partners. The entire world gains when all countries reduce their trade barriers, but individual national economies are still best served by moving as far as they can towards open markets and fair competition in the maritime sector – even if they do so outside of a multilateral framework.

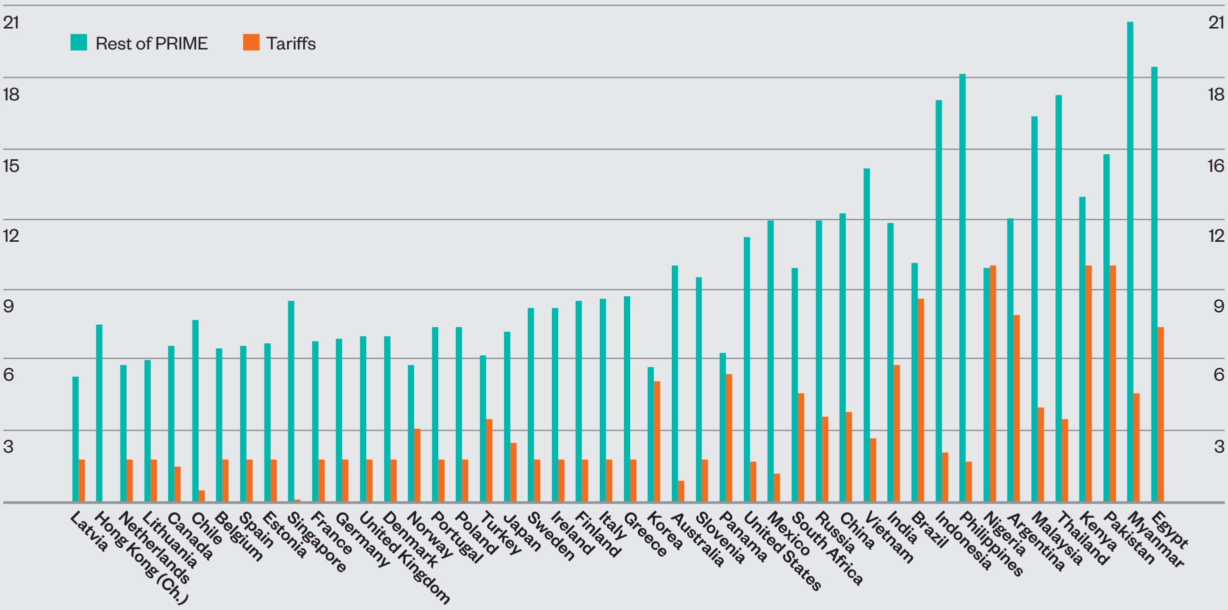
Finding 4:
Gains from maritime transport reforms can be maximised if they are undertaken both autonomously and in multilateral negotiations

1	The data presented suggests that countries should view domestic reform and international negotiations as complementary policy approaches. Nations with the highest initial levels of protectionist measures also have as much to gain (if not more) from removing their own barriers as they do from the reforms achieved in multilateral negotiations.

Finding 5:
Governments have more to gain by removing or reducing non-tariff restrictions than by focusing on traditional tariffs alone

1	By translating non-tariff restrictive measures into 'tariff equivalents', the Study reveals that non-tariff barriers are four times higher than traditional tariff measures would suggest. Therefore, all other things held equal, there is more to be gained by removing or reducing non-tariff restrictions than by focusing on tariffs alone.
2	This finding emphasises the need to move beyond traditional tariffs in reform discussions and negotiations.

Figure 8: Tariff equivalents of PRIME scores



Source: ICS/Craig Van Grasstek, Protectionism in Maritime Economies Study (ICS, 2021)

Finding 6:
There are several common restrictions stifling maritime trade growth in national economies

1	The most common trade restrictive policies identified in the Study include, among others, numerical or non-numerical limits on the scope of maritime services that can be supplied through cross-border trade; 'entry and licensing' conditions for cross-border trade; and requirements for use of local maritime and port services. Some of the policies identified in the Study are employed by a large minority – sometimes even a majority – of the 46 countries for which PRIME scores are calculated. A list of the ten most common restrictions can be found in the full Study.

Finding 7:
There is a link between costs of protectionist trade measures and exports levels (goods and transport services), as well import levels

1	Based on the four scenarios explored, the Study reveals that reform would increase the average country's total exports of goods and transport services. In the most ambitious Scenario 1 (all countries cut their scores by 50%), on average total export gains would be around 21.1%, corresponding to an average increase in countries' real GDP of 1.1%. For individual countries, those GDP gains would range from 0.3% to 3.4%.
2	The calculations also show that the costs of protectionism become more apparent with any rise in the relative level of imports in an economy. The Study therefore indicates that relaxing such restrictions could ultimately reduce import costs.

Finding 8:
Countries with low levels of protectionism generally embrace pro-market policies and are more competitive. They also achieve a higher income per capita and have lower levels of corruption

1	The analysis suggests that a country's tendency to adopt more open trade policies (i.e. have lower PRIME scores) increases rapidly as it moves up the lowest rungs of the economic ladder. The Study also finds that countries with lower levels of protectionism tend to have more competitive economies.
2	The data further reveals that trade costs can be especially high in countries where government institutions are weak, underfunded or prone to corruption.
3	Low levels of protectionism also correlate to countries which have adopted pro-market policies. This is not to suggest that a country that reduces its trade barriers will automatically be rewarded with higher income and competitiveness. This would need to be achieved in tandem with corresponding improvements in the quality of its laws and governance.

7. General Conclusions

Conclusion 1:
The current state of play points towards increasing trade restrictions

1	Following decades of progress towards open shipping markets, the principal direction of travel in recent years points towards trade restrictions being imposed for deliberate protectionist purposes. Such restrictions, often used as 'weapons' in trade disputes, are proliferating and damaging to those national economies which introduce them. They are usually also an inefficient means of promoting some other objective of public policy. The Study indicates that in many countries, these restrictions are often composed of a higher level of non-tariff barriers than of the more traditional tariffs.

Conclusion 2:
Levels of trade restrictions can vary significantly from country to country

1	The new global ranking confirms that countries differ greatly in their levels of maritime transport restrictiveness. The PRIME score for the country at the bottom of the ranking is more than three times higher than the country at the top.

Conclusion 3:
Analysing open or closed policies based only on WTO commitments is a poor predictor of how open or closed countries' actual policies might be. A more holistic approach is needed.

1	Using a score system ranging from 0 points (no commitments) to 36 points (fullest possible commitments), to assess a country's WTO commitments with respect to three categories of maritime transport services, the Study reveals that the commitments which individual countries make in their model schedules under GATS – if indeed they have made any – are a poor predictor of how open or closed their actual policies might be, noting that in many cases a country's commitments differ from its actual policies.

Conclusion 4:
COVID-19 has re-emphasised the need for predictable regulatory and maritime trade policy frameworks

1	The Study describes the impact of COVID-19 on maritime transport services as swift and severe. The pandemic is also identified as one of four major 'challenges to liberalisation' in the maritime transport sector. The other three being: (1) domestic resistance to reforms; (2) conflicting interests among low-, middle- and high-income economies; and (3) the proliferation of trade tensions, including the ongoing trade dispute between the United States and China.
2	The COVID-19 outbreak has highlighted that a predictable regulatory and trade policy environment is indispensable to alleviate uncertainty in the maritime transport sector. This would in turn ensure that national economies are able reap the full benefits of efficient maritime transport services.

Conclusion 5:
There is little evidence to suggest that countries adequately prioritise the maritime transportation sector when they negotiate trade agreements

1	The Study indicates that relatively few countries prioritise the maritime transport sector when negotiating trade agreements, whether multilaterally, regionally or bilaterally. This may be due to a lack of appreciation by countries of the strategic importance of maintaining competitive and cost-efficient maritime supply chains for the benefit of their national economies.

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