The marine sector in Asia

QBE

Introduction

The marine sector has a significant presence in Asia.[1] The contribution of the sector to national economies varies, however the region overall remains key to maritime trade both regionally and globally. Several Asian states' roles are reflected in global statistics, for example, UN Conference on Trade and Development (UNCTAD) data shows Hong Kong (China), Singapore, Japan and China among the largest national fleets by deadweight tonnage in 2023.

With major manufacturing bases and as the location of many of the world's largest ports, the region's critical role in trade reaches across goods types. For example, intra-Asian and extra-regional containerised trade represent a significant proportion of global statistics, and Asia is reported as the top crude oil importing region, with key buyers being China and India.

The region continues to adapt to changes in supply chains and the impacts of geopolitics on shipping. Since November 2023, the ongoing diversion away from the Suez route because of the targeting of shipping by the Yemen-based rebel Houthi movement has had a notable impact on global trade – but particularly for Asia-Europe trade, which relied on the route. Delays and increased costs seen globally have also been reflected in trade to and from the Asia region.

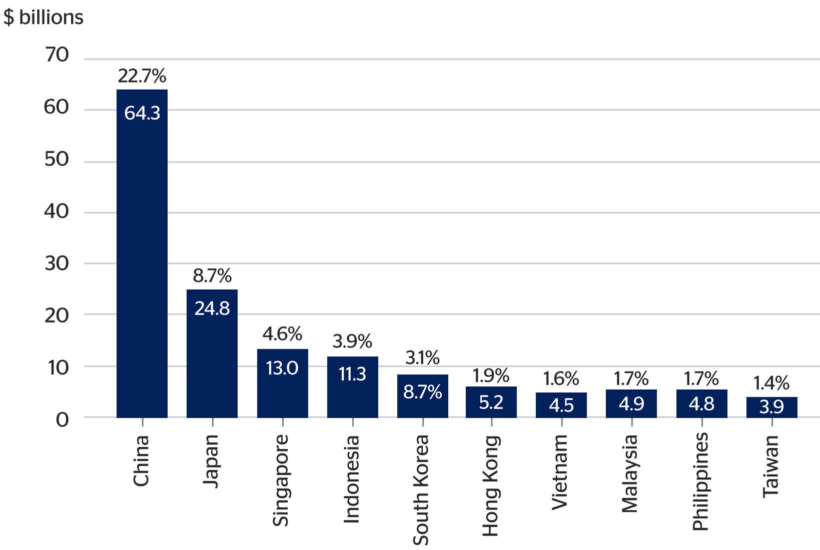
Multiple Asian countries operate key locations for both shipbuilding and recycling. The role of the region in ship recycling in particular will be a key issue to watch in the coming years, with the June 2025 entry into force of the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships (Hong Kong Convention), increasing obligations to ensure safe and environmentally sound recycling.

[1] Defined as NACE code 50: Water transport services. This includes water transport over sea/coast/inland of both freight and passengers.

Asia marine sector

In 2023, the marine sector contributed a total of $145 billion in gross value added to the ten Asian economies listed in Fig. 1. These ten economies make up a significant proportion (51%) of the global marine sector, with China, Japan and Singapore comprising 70% of the gross value added in the region.

Fig. 1: Marine sector gross value added $ and proportion of world total, 2023



Source: Oxford Economics

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The marine industry is an important sector for many economies, contributing 2.5% to Singapore's GDP and 1.2% (each) to Vietnam's and Hong Kong's GDP. Moreover, many sectors rely heavily on water transport services; an analysis of supply chain linkages suggests that the goods sectors that utilise the most from the Asian marine sector are basic metals ($11.9 billion), chemicals ($9.9 billion), and machinery and equipment ($9.0 billion).[2]

Macroeconomic risks to the marine sector

Our central forecast for the ten Asian economies is that the marine sector's production (in real terms) will grow by 3.5% in 2024. The performance of this sector is heavily tied to cyclical developments; as such, we expect stronger growth of 5.0% in 2025 and 4.4% in 2026, as the global economy picks up as real disposable income begins to increase, and interest rates begin to decline.

However, the performance of the marine sector can be heavily impacted by geopolitical developments. To look at potential risks to the sector, we use Oxford Economics' Global Economic Model to examine what might happen to the marine sector's production under increased trade barriers between China and the West, and an escalation of conflict in the Middle East.[3] Under the trade barriers scenario, the US, EU, and other allies raise trade barriers against China as a result of tensions between China and Taiwan. (However, outright conflict

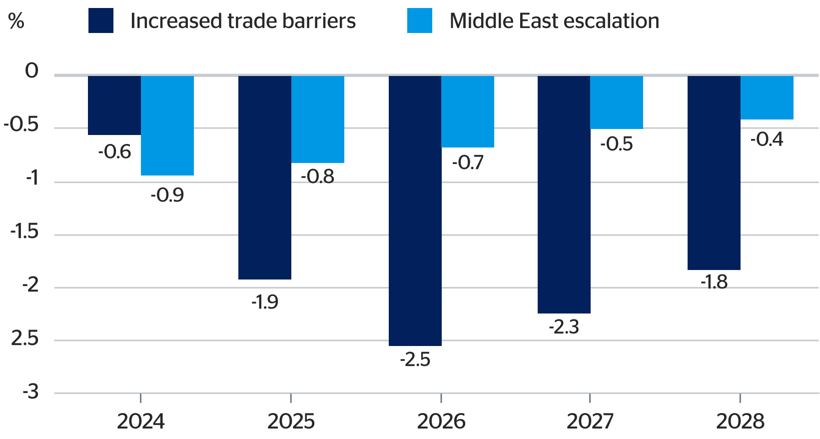
[2] OECD, Inter-country Input-Output (ICIO) Tables, 2020
[3] Oxford Economics. Global Industry Service. Accessed October 2023.

which would disrupt Taiwanese semiconductor production is avoided). This causes China to retaliate with similar trade barriers, and the marine sector's gross value added in the ten Asian economies is expected to be 2.5% lower than the baseline scenario (Fig. 2). Under this scenario, the marine sector in Hong Kong and China is expected to be the most negatively affected, with Hong Kong's marine sector declining 6.2% relative to the baseline in 2026 and China's by 4%. Under a Middle East escalation scenario, the Israel-Hamas war causes an oil price shock, leading to a significant slowdown in global growth. In this scenario, the sector's gross value added is expected to be 0.9% lower than the baseline scenario in 2024.

"Understanding the market landscape amidst geo-political tensions and carbon emission regulations requires industries to prepare for the new normal. Engagement with insurers would pave a clearer pathway with less potholes."

Rama Chandran
Head of Marine, QBE Asia

Fig. 2: Difference in ten Asian economies marine sector real value added relative to baseline under different scenarios.



Source: Oxford Economics

Key things to watch

- **Conflict impact for Asia-linked shipping:** Global maritime trade continues to be both directly and indirectly impacted by conflict and unrest, with transits facing delay and disruption as operators seek alternative routes, are required to reschedule port calls and arrange for use of new logistics locations, for example for refuelling and crew change. Volumes of trade imported to and exported from the Asia region also face such disruption, including for containerised shipping that has previously relied on the strategic Suez Canal route, and grain transport from the Black Sea towards Asian markets.
- **Supply chain diversification:** Trade with and within Asia continues, although some businesses have in recent years begun to adopt more diversified supply chains – notably moving some of their operations outside of China. This has implications for maritime transport where goods sources change and will be reflected both in changes to intra-regional shipping volume, and regional points of origin for extra-regional trade, significantly for containerised goods transport.
- **Environmental focus:** Globally, the environmental impact of maritime transport remains a persistent concern. Progress by shipping's global regulator, the International Maritime Organization, will continue to impact operations across the region, and regional states are likely to respond. Increased regulation of industries – for example, ship recycling – is a key issue to watch, with the Hong Kong convention due to enter into effect from June 2025. With several Asian locations operating significant recycling sites, changes in obligations including for surveying and planning will be key to watch.

Advice for business

Businesses in the marine industry need to be able to handle both ongoing and future geopolitical risks, as well changing trends in trade. QBE publish regular guidance notes for our customers on issues that are likely to affect operations as well as the latest industry developments. This includes geopolitical factors that might influence patterns of trade, such as sanctions, military action, and import or export restrictions.

For more bespoke risk advice, QBE's Marine and Loss Prevention teams unit can help businesses understand the risks specific to their business. This includes providing independent third-party risk assessments such as management visits. This can help businesses understand their existing operations and ways in which they can reduce claims.

"By conducting risk assessment reviews to identify the likelihood and consequences of various hazards, insurers can help businesses navigate the changing world in which they operate in."

Sebastian Tjornelund
Head of P&I Underwriting,
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This report has been developed for QBE by **Control Risks** and **Oxford Economics**

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