

## **Maritime Trade in Commonwealth South Asia: A Boon for Post COVID-19 Recovery and Resilience**

Salamat Ali, Brendan Vickers and Ganeshan Wignaraja

### **Summary**

*With long coastlines, vast marine areas and leading global seaports, the South Asian countries in the Commonwealth are important players in the global ocean domain. The maritime and shipping sector handle a significant share of these countries' global exports. Trade and growth in Commonwealth South Asia seem to be on a recovery trajectory from the devastating impact of the COVID-19 pandemic. However, skyrocketing freight rates on the major shipping routes fuelling rising trade costs, maritime security and other risks could affect exports to Western markets and derail recovery. A set of policies aimed at improving logistics, facilitating trade and ensuring environmental sustainability can help to harness the power of maritime trade in building back better in Commonwealth South Asia.*

### **Maritime Trade Profile**

South Asia is the largest region globally with almost one quarter of the world's population. The bulk of the region's population lives in the five larger countries (Bangladesh, India, the Maldives, Pakistan and Sri Lanka), which are members of the Commonwealth – an inter-governmental organisation of 54-member countries. Maritime shipping is emerging as an important sector in Commonwealth South Asia.<sup>1</sup>

One of the notable initial conditions for maritime shipping activity is the long coastline and extensive maritime domain of Commonwealth South Asia. The marine area of the Commonwealth South Asian countries is almost equal to their land area. However, it varies from 30 per cent (of land area) for Pakistan to about 800 per cent for Sri Lanka. For the Maldives, the marine area is much bigger, almost 3,000 times the country's land area, indicating huge unexploited potential of maritime trade, shipping and the wider ocean economy. The Maldives is one of the largest ocean states in the world, ranking third largest globally in terms of marine-to-land-area ratio.

The gradual integration of Commonwealth South Asia into the world trading system following the adoption of economic reforms in recent decades has shifted the focus of global production and trade to Asia. Around 80 per cent of world merchandise is handled through maritime trade routes and the same applies to the exports and imports of the five Commonwealth South Asian countries. The shipping and maritime sector provides a lifeline to these countries by linking production centres in East Asia with export markets in Europe

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<sup>1</sup> Ganeshan Wignaraja, Brendan Vickers and Salamat Ali, "Harnessing Maritime Trade for Post-COVID Recovery and Resilience-Building in the Commonwealth", International Trade Working Paper 2021/11, Commonwealth Secretariat, London, [https://thecommonwealth.org/sites/default/files/inline/ITWP%202021\\_11%20Maritime%20Trade.pdf](https://thecommonwealth.org/sites/default/files/inline/ITWP%202021_11%20Maritime%20Trade.pdf).

and North America. Before the pandemic, the combined merchandise exports of these five Commonwealth countries amounted to US\$400 billion (S\$536.84 billion) in 2019.

Since 2000, the volume of container traffic handled at seaports in Commonwealth South Asia rose nearly six-fold to around 30 million twenty-foot equivalent units (TEUs) in 2019. The share of these countries in the total container traffic in the 54 members of the Commonwealth rose to 28 per cent in 2019 (up from 17 per cent in 2000). This increase is largely due to India's maritime trade expansion, which is one of the largest Commonwealth maritime traders. Container traffic at India's ports has increased almost ten-fold since 2000 to about 20 million TEUs in 2019.

Interestingly too, Commonwealth South Asia is home to five important seaports that appear on the Lloyd list of top 100 container shipping ports in the world in 2020.<sup>2</sup> Two are in India — Jawaharlal Nehru and Mundra, with their global ranking at 33<sup>rd</sup> and 37<sup>th</sup> respectively. The others are Colombo Port in Sri Lanka (24<sup>th</sup>), Chittagong Port in Bangladesh (58<sup>th</sup>) and Karachi Port in Pakistan (85<sup>th</sup>). The key success factors underlying the high performing ports in Commonwealth South Asia include a strategic geographical location, significant Belt and Road Initiative (BRI) investment from China in ports and other trade-related infrastructure, notably shipping liner connectivity, well-organised logistics networks and efficient port-related services.<sup>3</sup>

For instance, a geographical advantage in the Indian Ocean has enabled Colombo port to become a key transshipment hub for India – a site where many shipping lines consolidate and de-consolidate cargo for transshipment to other destinations.<sup>4</sup> Around 45 per cent of Colombo's transshipment volumes either originate from or are destined to an Adani port terminal in India. The Colombo International Container Terminals, the only deep-water terminal capable of handling large ships, is the most efficient and environmentally friendly of Colombo Port's terminals. Gwadar port on the Arabian Sea at the mouth of the Strait of Hormuz is the landmark project in the US\$62 billion (S\$83.2 billion) China-Pakistan Economic Corridor.<sup>5</sup> Attractive incentives, modern infrastructure, good logistics and low labour costs relative to productivity has meant that the Gwadar Industrial Zone is attracting investors interest in a wide range of manufacturing activities (including textiles, chemicals, automobiles and mobiles).<sup>6</sup> The Payra Deep Sea Port project in Bangladesh, with Chinese investment of around US\$15 billion (S\$20.13 billion), is another significant development in

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<sup>2</sup> "One Hundred Ports 2020", Maritime Intelligence, Lloyd's List, <https://lloydslist.maritimeintelligence.informa.com/one-hundred-container-ports-2020/Digital%20edition%20ebook>. Accessed 24 October 2021.

<sup>3</sup> Herrera Dappe, Matías; Suárez-Alemán, Ancor, *Competitiveness of South Asia's Container Ports : A Comprehensive Assessment of Performance, Drivers, and Costs. Directions in Development—Infrastructure*. (Washington, DC: World Bank, 2016). <https://openknowledge.worldbank.org/handle/10986/24333>; and <https://www.adb.org/sites/default/files/publication/529551/sasec-maritime-cooperation.pdf>.

<sup>4</sup> Harsha de Silva, "Sri Lanka's Role in the Indian Ocean and the Changing Global Dynamic", ISAS Insights No. 405, *Institute of South Asian Studies*, 28 April 2017, <https://www.isas.nus.edu.sg/wp-content/uploads/2018/02/ISAS-Insights-No.-405-Sri-Lanka-s-Role-in-the-Indian-Ocean-and-the-Changing-Global-Dynamic.pdf>.

<sup>5</sup> Inayat Kalim and Areeja Syed, "Maritime Economy and Gwadar Port: A Growth Catalyst", *Policy Perspectives* 17, no. 1 (2020), pp. 73-82.

<sup>6</sup> "43 Chinese firms to invest in Gwadar port in Pakistan; 200 more show interest", *South Asia Monitor*, 17 February 2021, <https://www.southasiamonitor.org/china-watch/43-chinese-firms-invest-gwadar-port-pakistan-200-more-show-interest>.

this region. Interestingly, Chinese BRI investment in these South Asian ports has provided capital, skills and technology to improve port efficiency considerably. However, there are concerns about the fiscal sustainability of BRI projects and rising debt burdens in some recipient countries.<sup>7</sup>

Besides this hard infrastructure and ready access to the ocean, Commonwealth South Asia is also one of the largest sources of sea crew in the world. Almost 15 per cent of the world's seafarers (of around 1.6 million) originate from India and there are growing numbers from Bangladesh, Pakistan and Sri Lanka. While the world was in lockdown, this crew has worked tirelessly and often beyond the expiry of its contracts to keep ships and maritime trade moving, providing us with the necessary food supplies, medical goods and industrial raw materials.

## Resilience to Shocks

The maritime trade of Commonwealth South Asia has largely shown great resilience to various global shocks.<sup>8</sup> The global financial crisis of 2008-09 was a watershed moment in the growth of maritime trade of these countries. Their container traffic, which was growing around 13 per cent per annum before the global financial crisis dropped to almost half, at around seven per cent, but even this reduced growth rate has been higher than the figure for other Commonwealth countries.

During the COVID-19 pandemic, most Commonwealth South Asian ports have remained operational. Countries adopted various measures to mitigate the effect of the outbreak. There has been huge uptake in the adoption of digital technologies and shifting away from physical paper documentation. India has launched its world leading port community system that integrates all shipping-related stakeholders to one online platform. Pakistan is expediting the implementation of a single window that would automate the trade-related processes of more than 50 public sector regulatory agencies.

Moreover, shipping-related services, such as warehousing, financial, logistics and port documentation, have become increasingly digital. It is important to make these measures permanent once the pandemic is over and to not resort to business as usual.

India's digitisation of seaport-related services through the development of a port community system has greatly helped the country and its regional neighbours also.<sup>9</sup> Non-Commonwealth landlocked South Asian countries, such as Nepal and Bhutan, use India's seaports for transshipment of their cargoes.

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<sup>7</sup> Ganeshan Wignaraja, Dinusha Panditaratne, Pabasara Kannangara and Divya Hundlani, "Chinese Investment and the BRI in Sri Lanka", Chatham House, March 2020, <https://www.chathamhouse.org/sites/default/files/CHHJ8010-Sri-Lanka-RP-WEB-200324.pdf>.

<sup>8</sup> Ganeshan Wignaraja et al, "Harnessing Maritime Trade for Post-COVID Recovery and Resilience-Building in the Commonwealth".

<sup>9</sup> Anita Gurumurthy and Deepti Bharthur, "Impact of Digitalization in the Ports Sector", *IT For Change*, August 2019, <https://itforchange.net/sites/default/files/1664/Impact-of-Digitalization-in-the-Ports-Sector.pdf>.

## **Skyrocketing Freight Rates: A Crisis Within a Crisis**

In 2020, the COVID-19 pandemic adversely affected maritime trade and shipping in Commonwealth South Asia. However, this sector has shown great resilience. Maritime trade has rebounded sharply in 2021, partly linked to a base effect and a rapid pick up in East-West sea trade. The economic outlook for these countries has also improved markedly with the International Monetary Fund projecting a strong regional rebound from the pandemic in 2021: India is likely to grow at 9.5 per cent, Bangladesh at 4.6 per cent, Pakistan at 3.9 per cent and Sri Lanka at 3.6 per cent.<sup>10</sup> However, a high degree of uncertainty exists which could tilt the forecasts to the downside. For instance, the slow pace of vaccination and the emergence of more virulent variants of the coronavirus could derail this nascent recovery in trade and growth in Commonwealth South Asia.

In fact, the shipping and maritime sector in Commonwealth South Asia is now passing through the second critical phase of the pandemic. The easing of restrictions in most economies and adoption of business activities and containment measures have fuelled a huge demand for shipping services. Skewed consumer expenditure on goods, rather than services, stimulus-related financial support and switching to hybrid working arrangements have created a massive demand for new kinds of goods related to remote working, home improvement and health and wellbeing. The maritime sector is struggling to manage this unprecedented demand in Europe and North America, which has led to shortages of containers worldwide and caused a rise in freight rates. Some of these issues are hangovers from the earlier phase of the pandemic when many shipping lines resorted to cancellation or dry sailing, leading containers to be stranded at various ports.

Freight rates on East-West routes linking the Commonwealth South Asian ports with Europe and North America have increased almost ten-fold.<sup>11</sup> Around 40 per cent of exports from the South Asian economies are shipped to the markets in Europe and North America. Skyrocketing freight rates on the East-West routes that link South Asia's ports with these regions could pose a great challenge for the recovery of maritime trade. More than half of India's exports and around 70 per cent of those from Pakistan, Bangladesh and Sri Lanka are destined to these markets. This exponential rise in freight rates could affect competitiveness of South Asian firms, leading to delayed trade recovery. This could also create challenges in meeting exports orders during in the peak demand season before Christmas.

## **Risk of Maritime Security**

Non-traditional security challenges related to marine security are posing risks to maritime trade-led growth in the global economy. These include piracy, cybersecurity, people smuggling, drug trafficking and illegal and unregulated fishing. Strategically located in the

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<sup>10</sup> International Monetary Fund, *World Economic Outlook: Recovery during a Pandemic—Health Concerns, Supply Disruptions, Price Pressures* (Washington, DC, October 2021), <https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021>.

<sup>11</sup> Jan Hoffmann, "How to cushion consumers from high maritime freight rates", UNCTAD, 27 July 2021, <https://unctad.org/news/how-cushion-consumers-high-maritime-freight-rates>.

prosperous Indian Ocean, the Commonwealth South Asian countries<sup>12</sup> are vulnerable to cybersecurity and ransomware attacks on critical digital infrastructure that connects their seaports and inland container depots with shipping companies, freight forwarders and other actors in the supply chain. Timely exchanges of information regarding threats from maritime crime, closer cooperation between authorities (for example, coast guards, law enforcement agencies and cyber security agencies), capacity building, updating national laws on maritime crime and enforcement of the United Nations Convention on the Law of the Seas are important steps in tackling the growing threat of maritime crime in Commonwealth South Asia.

## The Maritime Trade Outlook

The shipping and maritime sector successfully weathered the global financial crises in the past as well as the blockage of the Suez Canal, more recently. Although this sector has shown a considerable resilience in the early phase of the current pandemic, it is now struggling to manage the unprecedented demand.

With the gradual removal of pandemic-related restrictions on air travel and resumption of tourism, the demand for maritime trade could stabilise in coming months. However, the emergence of new variants of COVID-19 could pose a short-term risk. The changing political economy dynamics in the Asia-Pacific would also have implications for maritime trade in this region. In the long run, the opening of a potential Northern Sea route because of melting Arctic ice offers several opportunities. This shipping route would considerably reduce sailing distance between South Asia and European markets and provide an alternative to the Suez Canal.

To use trade as an engine of growth and build back better from the pandemic, Commonwealth South Asia can focus on improving ports and logistics performance, enabling efficient and digitised trade facilitation, promoting trade openness and regulating container freight rates. In addition to supporting a quick economic rebound, these policy reforms would improve the competitiveness of the South Asian countries in the long term, as well as enable a more broad-based and inclusive trade recovery. As the world increasingly pivots to tackle the climate crisis, the focus should also gradually shift to ensuring greener shipping and building climate resilience and environmental sustainability of ports and maritime trade infrastructure. Furthermore, the rising threat of maritime crime needs attention. Implementing conducive policies in these areas can help to harness maritime trade for COVID-19 recovery and building resilience.

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Dr Salamat Ali is a Trade Economist, Commonwealth Secretariat. He can be contacted at [s.ali@commonwealth.int](mailto:s.ali@commonwealth.int). Dr Brendan Vickers is the Head of International Trade Policy Section, Commonwealth Secretariat. He can be contacted at [b.vickers@commonwealth.int](mailto:b.vickers@commonwealth.int). Dr Ganeshan Wignaraja is a Non-Resident Senior Fellow at the Institute of South Asian Studies (ISAS) at the National University of Singapore (NUS). He can be contacted at [gwignaraja@gmail.com](mailto:gwignaraja@gmail.com). The views expressed in this paper are those of the authors and do not necessarily represent those of the Commonwealth Secretariat and/or ISAS.

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<sup>12</sup> <https://www.financialexpress.com/industry/technology/cyber-attacks-india-second-most-attacked-country-in-asia-pacific-region-says-ibm-security/2211702/>.