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ECONOMIC NATIONALISM IN THE DEVELOPING WORLD: THE CASE OF MARITIME TRANSPORT AFTER WORLD WAR II

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ECONOMIC NATIONALISM IN THE DEVELOPING WORLD: THE CASE OF MARITIME TRANSPORT AFTER WORLD WAR II

'"Trust the market and interfere not" has a rugged simplicity which seems to suggest a fundamental truth'. [1] For some the internationalism of the sea and ocean shipping provides an exemplar of the operation of free market principles. Oceanic shipping by its very nature is international and an integrative feature of an increasingly global economy. Long haul maritime transport has a *laissez-faire* tradition with the private sector very much to the fore. 'There is a basic hypothesis', continues Sturmey with reference to merchant shipping, 'that whatever interferes with the competitive process is bad'.[2] In fact, the extent to which trans-oceanic shipping is governed by free and open competition is limited. Shipping is complex and not a single industry. It may be short or long haul and it is only one link in the logistics and supply chain. Liner and bulk trades are very different. Ships cannot just go anywhere and are not necessarily substitutes for one another. Water depth, tide conditions, berthing facilities and cargo types are all limiting factors. Moreover, even Sturmey has recognized that in practice that shipping markets are not perfect and that competitive pressures are not the only influence. He suggested the theory of the second best which refers to acceptable anti-competitive practices the industry can live with, as opposed to those which produce results which are deemed unacceptable.

Economic nationalism takes many forms and the creation of state-owned shipping lines, an extreme example, perhaps, of economic nationalism, might be regarded as one major feature in the imperfect markets of the shipping industry. The impact of the national shipping lines of less developed countries on the international maritime industry in the years after the Second World War is a matter of some debate. The post-1945 era has, notes Dharmasena, 'witnessed efforts by most of the newly independent countries of Asia to develop national merchant marines'.[3] The success of South Korean merchant shipping which was at its outset strongly supported by the Seoul government[4] and, more recently, of the maritime fleets of the People's Republic of China where the state role was crucial, is well known.[5] In the case of Sri Lankan shipping, Dharmasena argues that government support to national shipping 'was an important factor in [the country's] economic development by creating jobs, opening up new trade routes and saving the country significant amounts of scarce foreign exchange'. Shipping, he continued, 'can play an important role in the struggle of newly independent nations to achieve economic respectability'. [6]

By contrast the judgements upon the maritime advances among less developed countries elsewhere are less favourable. While a number of the Latin American republics have invested in shipping, examples of commercial success are hard to find.

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[1] S.G.Sturmey, 'British Shipping and World Competition Revisited', *Maritime Policy and Management*, XVIII, No. 4 (1991), p. 267.

[2] Sturmey, ibid.

[3] K.Dharmasena, 'The Entry of Developing Countries into World Shipping: the Case of Sri Lanka', *International Journal of Maritime History*, I, (1989), p. 85.

[4] See, for example, Hideo Kokuryo, *Korean Shipping and Shipping Policy: Shipping Industry Rationalisation Plan*, Japan Maritime Research Institute Report, No. 8, May 1965.

[5] Seji Nagatsuka, *Recent trends of China's Shipping and Shipbuilding: Increasing Tonnage of its Fleet and Expanding Shipbuilding Capacity*, Japan Maritime Research Institute Report, No.53, November 1995.

[6] Dharmasena, op cit, p.121

In Africa the picture is even bleaker. Declarations of intent have fallen far short of practice and, despite vigorous policies to develop a merchant fleet, have even had the opposite effect of what was intended. In spite of years of effort, argued Iheduru, Côte d'Ivoire in the 1990s was 'as dependent on foreign shipping lines today as it was in the 1970s'.[7] Metaxas takes an overall unfavourable view of state intervention to create public sector shipping. 'The greater the political will of the Third World and the socialist states to formulate their own national merchant fleets', he argues, 'the greater the number of economic problems created and the adjustments required by traditional maritime enterprise and the traditional maritime state'. [8]

This paper examines the origins and outcomes of the increased use of national shipping by non-traditional maritime nations in the developing world during the years after 1945. It is a preliminary survey which is based upon the existing secondary literature and it draws together contributions to the debate from a variety of books and articles in scholarly journals, some better known than others. The paper is not based upon primary sources. The broad issue the paper addresses is whether state investment in the oceangoing fleets of developing nations was on balance successful. The paper also touches upon a number of subsidiary questions. What role does the state tonnage of developing nations play in the world's carrying trades? Has the identity of the world's maritime nations changed as a result of this state intervention? Have developing nations reduced their dependence on the fleets of the traditional carriers from the developed world? To what extent have nationally owned fleets aided the process of economic growth and development in the non-western world?

The paper is therefore divided into four parts. The first describes the creation of state-owned shipping lines in the years before 1945. The second briefly reviews the progress of government-backed merchant shipping among less developed countries in the period following the Second World War, exploiting examples from Latin America, East Asia and West Africa. The third part critically evaluates the motives of national maritime carriers and the final part offers some tentative conclusions based upon this survey of the secondary literature.

I

Despite a British, perhaps even western, tradition that ocean-going steam shipping is an exemplar of commercial freedom, there has been in fact long-standing official participation in maritime affairs. Intervention may vary between countries and from time to time but it has been a factor in merchant shipping's decision making for two centuries or more. At a macro-level there is public concern for trade and economic development. At a micro-level, governments have been concerned with ship safety, the welfare of seamen and the safeguarding of passengers. There are related maritime issues, too, which attract government attention such as ports, the fishing industry, the coastal environment (when threatened, for example, by oil spillage) and trade taxes. The welfare of important associated industries like shipbuilding and steel also influences maritime policy, as when the British and Japanese governments introduced

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[7] Okechuku C. Iheduru, 'Merchant Fleet Development by Legislation: Lessons from West and Central Africa', *Maritime Policy and Management*, XIX (1992), p. 308.
[8] B.N.Metaxas, 'Maritime Economics: Problems and Challenges for the Future', *Maritime Policy and Management*, X, No. 3 (1983), p. 147.

'scrap and build' schemes to modernize their fleets during the depression of the 1930s.

Since steam shipping was of such special interest – Sloan suggests that oceanic shipping amounts to a quasi-public utility[9] - countries early on favoured their merchant fleets with protective legislation like the Navigation Laws that restricted national trade to national tonnage and safeguarded private mercantile monopolies and vested maritime interests. Subsequently, government subsidies and subventions, sometimes disguised as mail contracts, helped develop what was still an infant industry and, in particular, encouraged the construction and operation of liner shipping. The United Kingdom adopted a more *laissez-faire* stance towards her own merchant marine, which enjoyed natural protection in world markets through its size and technological leadership - although she continued to be concerned with maritime safety such as load line issues and the security of life at sea, especially after the *Titanic* disaster. Rival countries, however, introduced flag protection measures like cabotage laws (which reserved certain sea-going trades, like coastal shipping, to national carriers), the exclusive use of national lines for official business, cargo discrimination, tax exemptions and flags of convenience to develop their own tonnage and safeguard national economic and political interests. Shipping has a strategic and diplomatic importance in wartime and could be a bargaining counter in negotiations between sovereign states. It provides essential communication between outlying imperial possessions and the metropolitan centre and helped preserve the old eighteenth century 'colonial system'. Merchant shipping also contributes towards national security when it provides auxiliary tonnage, troop transport and naval reserves. It helps to ensure the availability of crucial imports like oil.

It was thus but a further short step for policy-makers to move from government regulation of shipping to the creation of state-owned national fleets or take majority shareholdings in existing shipping companies, an extreme example of government intervention in the maritime industries. While developed maritime nations praised the international nature of shipping, less developed countries began to emphasize its nationalist aspects.[10]

Even before 1914 countries on the periphery of the world economy had begun to develop their own merchant marines. The Chilean government formed the Compañía Sud Americana de Vapores (CSAV), which largely traded along the Pacific coast of South America from the 1880s, partly to compete with European carriers and partly to signal the country's newly-found supremacy on the west coast after the War of the Pacific.[11] At about the same time Lloyd Brasileiro was created with government support to develop Brazil's indigenous merchant marine. During the interwar years increased state ownership and operation of shipping lines reflected a further growth in economic nationalism. The Australian Government ran its own passenger fleet of five

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[9] Edward W.Sloan, 'Private Enterprise as Public Utility: the Management of Capital in Two Centuries of Shipping Business' in Paul C. van Royen, Lewis R .Fischer and David M. Williams (eds), *Frutta di Mare: Evolution and Revolution in the Mariitme World in the 19th and 20th Centuries*, pp. 89-99, being the Proceedings of the Second International Congress of Maritime History, 5-8 June 1996, Amsterdam, 1998.

[10] F.Benham, 'Political Factors and the Evolution of National Fleets in Developing Countries', *Maritime Studies and Management*, III (1976).

[11] Claudio Véliz, *Historia de la Marina Mercante de Chile* (Santiago, 1962).

ships until rising costs forced it to sell in 1928. [12] The small Russian seagoing fleet inevitably came under state ownership in 1919 but by 1939 nearly 90 percent of the Soviet Union's imports were carried by national shipping.

Even more traditional providers of maritime services created national lines. The French Government assumed increasing control of its two major liner companies, Messageries Maritimes and Compagnie Générale Transatlantique from 1937, fully nationalising them after the Second World War under the consolidated line, Compagnie Générale Maritime. The Ministry of Communications in Italy took over the country's merchant shipping during the 1930s.[13] The United States set up services under the US Shipping Board but reverted to mail subsidies in order to provide subventions after 1928. And, of course, in the emergency of wartime in 1914-18 and 1939-45, most governments temporarily nationalised or requisitioned their merchant tonnage.

II

Nevertheless, until the Second World War a small number of developed nations controlled the world's ocean-going tonnage and the vast majority of ships remained in private hands. However, state ownership of shipping increased after the Second World War. Although the United States disposed of its ocean-going ships to the private sector, both at home and abroad, under the Mercantile Marine Sales Act in 1946 and laid up its huge reserve fleet, the expanded fleets of the Communist-bloc countries were particularly important examples of state-owned fleets but even nations ostensibly subscribing to free market principles, like Denmark and Italy, operated their own shipping lines. State-owned shipping in the United Kingdom was not a primary issue but occurred after the war when the railways, steel and electricity, which had their own tonnage, were taken into public ownership. The British Government also held shares in companies like British Petroleum, the parent company of BP tankers.

However, what was a noticeable change after 1945 was the drive by less developed countries to establish and expand their own fleets. The withdrawal of the established maritime nations' shipping from their traditional sea lanes during the war encouraged the formation of national merchant marines among newly industrializing and developing nations. The rapid growth of international commerce during the so-called 'Golden Age' of the world economy during the years after the Second World War also marked the increasing economic significance of the maritime function, both in qualitative as well as quantitative terms. New sources of raw materials, more finished and semi-finished goods and an increasing share of world product being traded all required additional transport over longer distances. While most government regulation of shipping had focused upon domestic needs and capabilities, in a challenge to liberal theory and practice new state intervention would directly influence the international market for maritime transport services. [14] Developing countries began to seek a market share for their own national fleets through political action rather than competitive pressure.

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[12] S.G.Sturmey, *British Shipping and World Competition* (London, 1962), p. 100.
[13] S.G.Sturmey, *British Shipping and World Competition,* pp. 113-120.
[14] E.Schrier et al, 'Forces Shaping International Maritime Transport', *World Economy*, VII, No. 1 (March 1984), passim.

In most cases national shipping fleets among the less developed countries were largely or wholly state-owned. It was recognized that ‘new’ maritime industries in developing countries could not compete initially with well-established shipping in developed countries. To enter international shipping markets and to encourage competition, governments in developing countries had to support their maritime sectors. Moreover, transoceanic shipping requires considerable supplies of capital as well as managerial skills which are in short supply and beyond the capacity of the private sector in those countries. Governments had to intervene to fill the gap. For about 30 years after the Second World War trade policies in many developing countries were strongly influenced by the belief that a key to economic success was the establishment of industrial sectors of strategic importance, of which shipping was an example. While infant industry protection would be needed in the short –run, in the longer run such industries would have the potential to mature sufficiently to compete internationally.

The movement accelerated from the 1960s when the United Nations Commission on Trade and Development (henceforth UNCTAD) and its Shipping Division entered the debate and framed cargo reservation proposals which became enshrined in the laws of emerging countries. UNCTAD recognized the limited access less developed countries had to international shipping trades. In particular, it articulated the dissatisfaction that non-maritime nations felt with the closed conference system which barred membership and its impact upon freight rates. It proposed that the national products of developing nations, normally raw materials and primary commodities should be carried in their own tonnage. The Liner Code of Conduct, agreed in 1974 and in force by the 1980s, initiated a 40: 40: 20 scheme whereby 40 per cent of cargoes should be reserved to the exporter nation’s tonnage and 40 percent to the importer’s with the remainder available to any carriers.[15]

'The post-World War II era', argues Dharamsena, 'has witnessed efforts by most of the newly independent countries of Asia to develop national merchant marines'.[16] Leaving aside the case of Japan where successive governments gave initial support to investment in ocean-going shipping, other developing East Asian states have backed the creation of a merchant marine. In the 1960s South Korea developed a shipping policy in the form of tax privileges, loans, bounties and subsidies to expand her merchant fleet to complement her rapid economic growth. The Republic of Korea Shipping Corporation was effectively a state enterprise until its privatization in 1968.[17] Most important, perhaps, was China’s shipping policy. The China Ocean Shipping Company (COSCO) lay at the heart of her state-run mercantile marine with about 80 per cent of the country’s tonnage. China’s fleet was transformed from small riverine and coastal vessels in the 1970s to one of some 700 ocean-going vessels, including modern container ships, tankers, bulk carriers and liners amounting to 15 million dwt by the mid-1990s, which reflected her rapid GDP growth and her more open economic stance. By 1995, COSCO controlled many affiliates at home and

[15] See, for example, United Nations Conference on Trade and Development, *Success in Shipping: Participation of Developing Countries in World Shipping and the Development of their Merchant Marines*, Geneva, 1978.
[16] Dharmasena, p. 85.
[17] Kokuryu, loc cit.

abroad and a number of regional branches and was organized into functional divisions responsible for such areas as transportation, agencies and fuel supply.[18]

Other developing nations around the Indian sub-continent have also invested in a merchant marine. India herself and Pakistan have developed an ocean-going capacity. Soon after independence, India promulgated her Dynamic Shipping Policy by which she acquired tonnage under the National Shipping Corporation of India - amounting to 2 million tons by 1954 - and reserved cargoes for national vessels, 100 per cent in the case of the coasting trade and 50-75 per cent in the case of overseas trade. Sri Lankan merchant shipping has also developed rapidly under government support from the 1960s.[19] The Ceylon Shipping Corporation (CSC) set up in 1969 became wholly state-owned the following year and by 1985 operated 11 ships.

In the Middle East and Africa, too, state-controlled shipping firms also play an important role and the experience of West Africa is probably the best documented. Liberian registered tonnage dominates world shipping but most of it is not owned by Liberians. Other West African nations do, however, own shipping.[20] Ghana started its Black Star Line to Europe in 1957 helped by the Israeli Zim Line. The Nigerian Government with 51%, and two British lines, Elder Dempster (with 33%) and the Palm Line (with16%) set up the Nigerian National Shipping Line (NNSL) which became wholly locally owned from 1961 when the two expatriate companies sold their share of the joint venture.[21] Iheduru notes that in addition to NNSL, there were five other Nigerian-owned lines which qualified for national carrier status.[22]

West African shipping further increased over time especially with other state-owned firms, Cie Maritime de Zaire and the Société Ivoraire de Transports Maritimes (SITRAM) of Ivory Coast. SITRAM was formed in 1967 in a joint venture with the French Government and set up a number of supporting agencies. Gabon, too, operated a state-owned line, the Société Nationale des Transportes Maritimes. Many state-owned ships were run alongside local private sector tonnage.

Another important governmental presence in shipping is found in Latin America. By the 1980s, some two-thirds of Latin American tonnage, even that which flew flags of convenience, was in state hands. In the case of Brazil there was direct official involvement through ownership in her three largest shipping companies, Petrobás, Docenave (for coal and iron ore) and Lloyd Brasileiro.[23] The performance of the Brazilian shipping industry has, according to Sheila Farrell, been dominated by these companies which in 1979 accounted for 43 per cent of general international cargo and 89 per cent of international bulk traffic carried by national shipping lines. In Peru the government-managed Corporación Peruana de Vapores (CPV) operated a small merchant fleet along the Pacific coast up to the United States.

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[18] Nagatsuka, loc cit.
[19] The information in this paragraph is taken from Dharmasena, passim.
[20] Ademuni-Odeke, *Shipping in International Trade Relations* (1988)
[21] A.Olukoju, 'A "Truly Nigerian Project?": The Politics of the Establishment of the Nigerian National Shipping Line, 1957-1959', *International Journal of Maritime History*, XV, No. 1 (June 2003), pp. 69-90.
[22] Iheduru, loc cit, p. 306.
[23] Sheila Farrell, 'The Use of Flags of Convenience by Latin American Shipping, *Maritime Policy and Management*, XI, No.1 (1984), pp. 15-20 and 'Protectionism in Practice', *Maritime Policy and Management*, XIII, No. 4 (1986), pp. 277-290.

III

The arguments in favour of less developed countries establishing a mercantile marine are both economic and non-economic. It is a familiar macro-economic theme that a national fleet will contribute to national welfare through a strong positive impact on a country's economy. Its formation, so one argument runs, will expand the economy and create income. Trade and shipping are, it may be argued, positively correlated so that establishing a shipping line opens up new trading possibilities, especially in the primary bulk commodities which form the greater part of the exports of less developed countries and which required large amounts of shipping space. Moreover, the economic development of a country would depend not only on investment in overseas trade services related to the existing commercial flows but also to the expectation of future foreign trade expansion. Dharmasena argues that the Ceylon Shipping Corporation widened the country's range of markets and helped it penetrate new markets in China and the Middle East by calling at ports to which the conference lines were reluctant to go. As the world economy continues to expand and as trade's proportion of total output rises, shipping becomes of increasing importance. 'Nations with …chronic shortages of foreign commerce', notes Goss, 'sometimes consider investment in merchant shipping as a way of improving matters'.[24]

Investment in merchant shipping might improve the balance of payments through saving and, perhaps, also earning foreign exchange. Payments to overseas ship owners in foreign currency will be replaced to the extent that local traders and foreign shippers use the national shipping fleet. Such foreign exchange earnings are further enhanced by national ships that load in the cross trades whereby they make only foreign calls and ignore home ports. Passenger services which might previously have been provided by foreigners may also earn foreign exchange while the very act of ship investment on any route may yield further savings in that transport costs are forced down.[25]

But the balance of payments benefits are questionable. Professor Goss makes the point that domestic shipping earnings will not necessarily be in foreign currency and that to the extent that national tonnage replaces foreign shipping, there will be a loss of foreign exchange formerly earned by less developed countries through the provision of port services to expatriate firms and through foreign crew expenditure. Moreover, national shipping will now have to release foreign exchange to cover bunkering, cargo handling and other costs in foreign ports. Only crew costs are really local; the rest are effectively international and involve the use of scarce foreign exchange. Indeed, even if national shipping provides net foreign exchange earnings, some will leak abroad, dependent on the marginal propensity to import.[26]

Another important consideration, with an additional bearing on the balance of payments, is the capital cost of a national fleet. If the tonnage is built at home, perhaps, under licence, or somehow acquired free of charge as a gift, the import

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[24] R.O.Goss, 'Investment in Shipping and the Balance of Payments: A Case Study of Import Substitution Policy', *Journal of Industrial Economics,* March 1965 and reprinted in *Studies in Maritime Economics,* 1968, p. 46.
[25] Goss, loc cit, pp. 46 et seq.
[26] Goss, pp. 47-51.

component is relatively low, but not zero, given that the specialist skills of expatriate technicians will also have to be paid for. But it is more likely that tonnage will be bought overseas which will create a balance of payments debit. Second-hand purchase lowers the initial capital outlay but is likely to raise the cost of repair, often in foreign ports, and the ship's life will be shorter. New tonnage financed on credit will incur interest charges payable in foreign exchange. 'In an absolute sense', argues Goss, 'investment in shipping will indeed improve the balance of payments but faulty analysis may exaggerate the extent to which this occurs'.[27] It remains questionable whether the cost of a foreign loan and its associated interest charges, with which to purchase ocean-going tonnage, is better than running a permanent drain on the balance of payments through freight and other related charges. Citing the case of Canada, Heaver concluded that it was inappropriate to consider investment in shipping for balance of payments reasons.[28] Dharmasena, by contrast, concludes that the formation of CSC has helped Sri Lanka conserve foreign exchange.[29]

A further argument in favour of investment in national shipping involves the issue of economic control. No more important role could be given to newly-created national fleets than to reduce the power of the shipping conferences or cartels which dominated almost all the world's liner trades to the detriment, it has been argued, of producers in non-maritime nations. The arguments about the economic role of conferences are not one way. Peter Davies, for example takes a broadly positive view of the relationships between expatriate conference lines and local governments.[30] And for many shippers the rationalization and efficiency of conference line services, albeit at a higher cost, were preferable to the free market.

But although analysis suggests that countervailing powers to conferences exist in the form of shippers and competitive market forces, their presence in the oceanic trades has remained controversial. Conferences comprised inter-carrier agreements to preserve and, if possible, raise freight rates to meet the high fixed costs of liner operation. They applied tying arrangements to their users and established joint services and operating consortia. In the case of Sri Lanka they imposed discriminatory rates on tea compared to exports from India. They pooled revenues and resources and raised barriers to entry against non-members. In addition, argued their critics, they raised freight rates above free market levels to the extent that an increasing share of final commodity prices was absorbed into the c-i-f payments to European ship owners.

Some recent *prima facie* evidence of rate discrimination against developing economies supports this latter contention. In 2002 freight charges as a proportion of world import costs amounted to 6.11 per cent but there were wide variations across the globe. C-i-f amounted to just 5.12 per cent of import costs for developed market economies but an average of 12.65 per cent for African economies.[31] Such revenue

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[27] Goss, p.54.
[28] Trevor D. Heaver, 'National Flag Shipping: An Appraisal of Policy Options from a Canadian Perspective', *Maritime Policy and Management*, X, No. 3 (1983), p. 200
[29] Dharmasena, p. 116.
[30] Peter N. Davies, *The Trade Makers: Elder Dempster in West Africa, 1852-1872 and 1973-1989,* Research in Maritime History, No. 19, St Johns, Newfoundland, 2000. For a recent alternative view of the West African conferences, see Olukojo, p. 71.
[31] *Review of Maritime Transport,* 2003. See also Iheduru who makes some similar calculations of the differences in c-i-f costs.

capture might be ignored in times of rising commodity prices but when they fell, as in the 1930s and from the 1950s, the effect on producer incomes could be serious. The staple exports of developing countries continue to be primary commodities, some of which are non-essential and others easily substituted, giving them a high price elasticity of demand. Any increase in price through higher freight charges would depress demand. Accordingly, the impact of higher c-i-f tended to fall on producer rather than consumer nations.

While some conferences, especially those operating out of the United States were open to new members, others were closed. The West African-Europe conference (WALCON) was notorious in that before 1939 the shipping trade was divided between just three lines, Elder Dempster (British), Woermann (German) and Holland-West Africa, to the despair of local producers and, sometimes, British colonial officials.[32]

‘It was’, argues Davies, ’to be anticipated that the newly independent states of West Africa would wish to secure a degree of control over their external communications than had previously been the case’. [33] National fleets operating outside a conference could thus offer lower rates, entice shippers from the conference lines and reduce the market share of foreign ship owners. Indeed, in the case of West Africa where state marketing boards controlled much of a country’s exports, there were obvious opportunities for Africanisation of north-bound cargoes and maritime transport. Iheduru notes the adherence of the West African maritime nations to UNCTAD’s 40: 40: 20 scheme and their pursuit of a number of additional policies to encourage local shippers to choose national tonnage such as cargo reservations, tax incentives and discrimination, central freight agencies and lower harbour dues.

'Hence the primary motivation of many developing countries to invest heavily in national fleets was', explains Dharamsena, ' a desire to use them as a countervailing measure against what they viewed as unfair practices (sic) by the conferences'. [34]However, the degree to which national fleets influenced local shipping conferences is questionable. ‘The basic structure of the existing closed conference system’, argued Schrier at al, ‘was maintained and strengthened; only the participants were changed’.[35] National policy that state-owned lines should be admitted to a conference allowed them to exercise some control over rates and services from within and the stability of the carrying trades may have benefited from their incorporation within the conference structure. 'The fact remains', explains Dharamasena, 'that conference membership gave [CSC] the much desired ability to operate regular services'.[36]

But membership diluted their independence against the established carriers and thereafter made them party to conference decisions against other outsiders. Black Star was admitted to the WALCON in 1957 and NNSL in 1959, although, as Peter Davies notes, ‘the two national lines … received a smaller share than they would have wished for when they first began their operations’.[37] By 1964, although Elder Dempster’s

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[32] Davies, loc cit, p. 308.
[33] Davies, loc cit, p. 297.
[34] Dharamasena, loc cit, p. 86
[35] Schrier et al, loc cit, p. 96
[36] Dharmasena, loc cit, p.99.
[37] Davies, loc cit, p. 310

share had fallen from around 49% in the 1950s to 30%, Black Star had only a 7% share and NNSL 10% of conference traffic. By 1990 Black Star enjoyed an 11per cent share of West African traffic and soon saw the advantages of conference membership. Southbound cargoes might depend on conference membership. 'It is always possible', remarks Sturmey, 'for a single country, the shipping of which is being harmed by discrimination, to lessen that harm by adopting discrimination itself'.[38].

Nor is it clear that less developed countries have made the appropriate investment decisions. They face the decisions that all ship owners, even those with vastly more experience face: what type of vessels should they buy or charter? With scarce supplies of capital they cannot afford to make mistakes. The demands of international trade change over time; ports have varying discharge and loading facilities. Unlike the old nineteenth and early twentieth century tramp, the universal ship is less common. Tonnage suitable for one trade is not necessarily suitable for another. Today ships are much more specialized into liquid cargo carriers, dry bulk, refrigeration and roll-on/roll off, with containerization and palletisation further important features.

Given their export commodity composition, West African states probably needed freighters but invested instead in liners which UNCTAD seemed to prefer. At best this may be a far-sighted decision which looks forward to a time when such countries are less dependent on raw material cargoes; at worst it suggests a preference for prestige over practicality. Further, although technological advance in the maritime industries has not been as rapid as in, for example, information technology and electronic communications, and is broadly accessible to all, its application remains subject to capital availability. However, two major changes have revolutionized the conduct of ocean-going ships, containers and pallets. Should less developed economies have invested in these developments? CSC did successfully bring in the containerization of the Sri Lankan tea trade. In 1965 Elder Dempster, Palm Lines and NNSL established African Container Express Ltd[39] but its success was much more limited. On the one hand, the nature and quantity of tropical produce does not always lend itself to containerization or to bulk carriers and there may be no return cargo; on the other hand, ignoring containers and buying old second hand shipping will prevent less developed countries from exploiting efficiencies and becoming competitive in the cross trades. In total, advances in maritime technology, argues Schrier, '[have] made it difficult for non-traditional maritime countries to develop a presence in the expanded trade in ocean transport'.[40]

Further, the economics of ship owning is running against the new maritime countries. Ocean transport is in practice becoming increasingly capital intensive with high fixed costs which is inevitably a deterrent to infant merchant marines. Ships are larger, more complex technologically and increasingly sophisticated. These developments, together with the fact that most of the variable costs, especially fuel, are international – and the cost of oil is rising against crew costs - mean that ship operation works on very small margins and it is difficult to see what competitive advantages the fleets of emerging nations possess. Moreover, operating ocean-going tonnage requires complementary skills which may be in short supply. 'Most … developing countries have been unable to build up competitive fleets with high technical and managerial

[38] Sturmey, op cit, p.268.
[39] Davies, loc cit, pp. 306 and 324.
[40] Schrier et al, loc cit, p. 94.

skills'.[41]And, in addition, most international carriers have now developed onward transit links with shore-side facilities and land-based transport firms, institutional and establishment advantages which latecomers to ocean shipping from among the emerging economies cannot easily match. The economics of modern ocean shipping with its high break-even points and the need for maximum utilization of resources, simply do not favour emerging economies.

Consequently, developing economies have found it difficult to build up their merchant marines which has limited their access to certain trades. Nigerian oil was not carried in national lines because of the absence of a local tanker fleet.[42] NNSL did not own all its ships but simply chartered them from foreign owners. Nor could national African lines always meet demand. Cargo allocations from the Nigerian marketing boards to NNSL had to be passed on to foreign lines in the absence of sufficient local shipping, exacerbating one of the very problem national shipping lines were designed to solve.

The impact of a mercantile marine on job creation in the less developed countries also has limits. Increasingly, in a capital intensive industry, jobs become restricted in number and the skills more specialised. Appropriately trained personnel may be hard to find and a pool of labour willing to go to sea is not necessarily available. Critics have noted the creation of prestigious posts for shore staff among a country's elite. [43] However, it is true that knowledge and experience was slowly transferred from the established lines of the core countries to the national carriers of the developing world in the form of joint ventures. After the Israeli Zim Line subsequently sold its 40% share of Black Star to the Accra government it continued to provide managerial and technical help

But debating the economic reasons for developing economies establishing their own merchant marine may miss the point. Even if the economic rationale is suspect, there may be non-economic reasons for investment in oceanic transport. The creation of an indigenous merchant marine was, like the establishment of a national airline, a sign of economic development but it also complemented political independence. The two or three decades after 1945 marked the onset of decolonization. In West Africa, for example, Ghana became independent from Britain in 1957, followed by Nigeria in 1960, Sierra Leone in 1961 and Gambia in 1965. Ships are very visible and to fly the country's flag, a symbol of nationhood, demonstrated a former colony's new status. Indeed, colonial powers allegedly discouraged local ship owning in order to reserve its benefits for their home citizens so political independence gave countries the opportunity to strike back. In some countries a national shipping policy required fresh initiatives[44]; in others it was more a re-emergence of an industry 'that had suffered serious setbacks under colonial rule. '…whatever the case for a particular nation', argues Dharmasena, 'a feature common to all has been a great determination to establish national merchant marines as a means of achieving economic independence'.[45] Issues of national consciousness, prestige and ambition 'cannot be ignored when a motivating element in the development of national fleets is sought'. [46]

[41] Schrier, et al, loc cit, p. 97.
[42] Davies, loc cit, p. 342.
[43] Benham, loc cit, p. 137.
[44] Nigeria may be such an example, see Olukojo, loc cit, pp. 70-74.
[45] Dharmasena, loc cit, p. 85.
[46] Benham, loc cit, p. 134.

Having one’s own fleet had become an indispensable part of the new international economic order in the second half of the twentieth century.

IV

Ownership of ocean-going tonnage takes various patterns. Individuals, limited companies, multinational enterprises and joint private-public ventures are all examples of ship owners. Moreover, there are hidden layers of ownership in the form of chartering and open registries. One of the most obvious differences in the ownership of ocean-going shipping after the Second World War compared to the pre-war period was the emergence of national lines among the less developed countries, some state-owned, others in the private sector. It is clear that these developments preceded UNCTAD’s declarations but were probably accelerated by its pronouncements.

Were the maritime responses of developing nations effective? To what extent have inequalities in the carrying trades been redressed? Has there been a shift in the balance of power between foreign shipping companies and developing countries? For Dharmasena 'the dependence of many developing countries on foreign shipping services had many negative economic effects'. [47] Countries in East Asia like Sri Lanka showed what could be achieved. Their case reveals that, over time, infant, or should it be senescent, industry protection might lead national shippers to become technologically and commercially successful. In the examples of South Korea and China, there was complementary growth and development throughout their respective economies which provided a large and varied two-way trade. The parallel creation of their domestic steel and shipbuilding industries, both as part of their development strategies as well as for defence purposes and national security, were undoubtedly essential to the subsequent strength of the national fleets of China and South Korea, giving them a head start in shipping which other emerging economies could not exploit. These industries provided the necessary backward and forward linkages (in the form of ship repair) and, in the case of steel, inward bulk cargoes of iron ore on which shipping depends. Furthermore, important long-term financial support and managerial skills were also available. But, according to Jamieson[48], only China and Liberia among the developing economies featured among the world’s top ten fleets in 1983, and the case of Liberia is wholly exceptional. Dharmasena argues that 'shipping has a role to play in the transformation of "have not" nations into viable economic units [but] *the conditions have to be right'* (my italics).[49] Are countries like Sri Lanka exceptions to the rule?

Elsewhere, the results of state-owned shipping among developing economies seem to be more mixed. The balance of payments effects are at best doubled-edged and the extent of economic independence variable. While the depth of Metaxas’s criticisms of nationally owned tonnage may be hard to justify[50], it remains questionable whether the allocation of capital to purchasing tonnage and operating a state-run shipping line is an optimal use of scarce resources. Without complementary domestic steel and

[47] Dharmasena, loc cit, p. 114.
[48] Alan G. Jamieson, *Ebb Tide in the British Maritime Industries: Change and Adaptation, 1918-1990* (2003), p. 43.
[49] Dharmasena, loc cit, p. 122.
[50] Metaxas, loc cit.

shipbuilding industries to take on construction orders and provide repair work facilities, developing economies will find it difficult to support their national shipping fleets. In both the short and the long run the opportunity costs may be high. What is questionable is the wisdom of investment in additional shipping services which were already being efficiently provided when this diverted capital away from more important projects like road and rail construction and improved port facilities. Further, it remains unclear whether the volume of trade conducted by developing economies would be different if the distribution of tonnage changes from expatriate to local ownership.

Moreover, the quality of West African fleets remains doubtful. There were achievements but they fell far short of what had been anticipated. By the mid-1980s, riven by disruptions to schedules, delays and cancellations, Black Star suspended its operations. Iheduru notes that in 1991 the fleet of the Nigerian National Shipping Line comprising 13 ageing and uneconomic ships was in disarray; in the Ivory Coast, as in Nigeria, there was limited containerization and other ships were laid up. 'Legislation', he argues, 'is not the only pre-requisite for success in the promotion of national flag shipping'.[51] According to Olukojo, NNSL had largely collapsed by the early 1990s.[52] Other elements in the equation have to be present as the experience of South Korea and the People's Republic of China has shown, while in West Africa local economies were faltering. It is important to put the causal chain the right way round. It is not so much that a national merchant marine leads to economic growth and development but, perhaps, that economic growth and development will support independent shipping.

And it is not surprising that many national shipping lines could not pay their way. Since the 1960s freight costs have been falling in real terms. They have only doubled while other business costs have risen by a multiple of factors. Stopford offers an example from the oil industry where in 1960 freightage was 25 per cent of the cost of Arabian light; today it is 5 per cent, the result of economies of scale, new technologies, improved port handling and other efficiencies.[53] It is arguable whether free competition keeps rate low while the creation of excess capacity requires higher freight rates to cover the additional cost of that excess capacity. Nor is the fact that c-i-f charges were higher for developing economies especially in Africa necessarily confirmation of unfair commercial practices by expatriate liner companies. Poor harbour facilities and inevitably longer loading and discharging times are bound to increase costs, as are small quantities of cargo at minor ports.

It is noticeable that those countries which previously were important ship owners, like the United Kingdom and Germany, have in fact disinvested from shipping. In the years immediately after the Second World War, the United Kingdom still enjoyed about 25 per cent share of ocean tonnage; by the end of the twentieth century that share had atrophied to less than 1 per cent.[54] Nevertheless, Europeans in the form of Greek and Norwegian owners still dominate the world's shipping industry. While the

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[51] Iheduru, loc cit, p.314. For a detailed appraisal of Nigerian maritime legislation , see Iheduru's 'A Critical Assessment of Nigeria's Shipping Policy and Its Implementation', *Journal of Maritime Law and Commerce*, XXIII, No. 4 (October, 1992), pp. 547-83.
[52] Olukojo, loc cit, p. 69.
[53] Martin Stopford, *Maritime Economics* (2nd ed, 1997), pp. 5-6
[54] Jamieson, op cit, pp.11-50.

exit of some foreign companies, particularly British, from the world's carrying trades may suggest some success for nationalist policies, an alternative explanation is that investment in maritime transport does not always pay. Heaver notes a rejection by the Canadian Government of state-owned ocean tonnage on the grounds that such investment would not be cost effective.[55] Moreover, in the case of the core countries, is it question of whether they were pushed? The departure of the traditional carriers from the world's shipping routes was not necessarily the result of national shipping policies but would have happened anyway.

Far from investing in a merchant marine, developing economies might be better advised to leave well alone. If developed countries cannot operate merchant tonnage successfully, given that most of its costs are international rather than national, what chance do developing nations have? It remains unclear whether state-owned ships were profitable but any losses continued to be covered by national taxpayers. Even in the case of the Ceylon Shipping Corporation to which Dharmasena ascribes a number of successes, long-term profitability was not one of them. Good returns during the 1970s continued into the 1980s until a combination of rising costs and a world-wide shipping recession plunged CSC into losses which required direct government financial assistance.

This paper has concluded somewhat pessimistically about the effect of state-owned oceanic tonnage among developing economies. With notable exceptions, the experiment has not yielded the expected economic benefits either to the sponsoring governments or to their shippers. Despite the obvious achievements of developing countries in creating their own merchant marine the long-term economic advantages may be slim. Further, the successful participation of developing countries in merchant shipping may have an unexpected impact in that it may cheapen shipping costs and develop trade for other countries which could, in fact, better afford such use of resources.

But a conclusion which focuses on what amounts to profit maximization may miss the point. Investment in state-run national shipping lines may not make good business sense but is rational in the circumstances. It was open to question on purely economic grounds but was politically essential. There may be few tangible producer benefits but there is, perhaps, a 'psychological gain'. [56] Trevor Heaver refers, too, to the 'psychic income' from investment in national shipping whereby the intangible gains compensate for the economic disbenefits.[57]

An outcome which questions the economic rationale of state-owned national lines supported by developing nations may simply reinforce what has been the long-term experience of maritime transport. Government participation in merchant shipping has on the whole stopped short of outright ownership. In the nineteenth century, by far the greater part of the world's shipping, which the United Kingdom dominated, was free from state ownership, and even in the second half of the twentieth century it was private shipping companies, not the public sector, which prevailed in today's leading maritime countries like Greece and Norway.

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[55] Otto Lang, *A Shipping Policy for Canada* (1979) cited by Heaver, loc cit.
[56] Benham, loc cit, p. 134.
[57] Heaver, loc cit, p.199.

Moreover, at the end of the twentieth century and the start of the twenty first, far from the structure of the shipping industry being increasingly influenced by political decisions which ignore or suppress market forces, as Schrier et al suggest, the trend is towards deregulation, liberalism and the privatization of nationally owned assets. The global climate and the business environment have moved against an extension of government economic intervention. Sealink, for example, was decoupled from British Rail and privatised in 1984.[58] With the collapse of Communism, even China has begun to dismantle her earlier state-owned economic structures. Unlike other modes of transport, such as railways, shipping fleets do not enjoy a natural monopoly, given the freedom of the seas. The substitution of air travel for passenger liners and the globalization of merchant shipping make nationally owned fleets more or less redundant unless the economic and social pressures are overwhelming. Further, the liberalization of the trade in services, partly on a multilateral basis under the influence of the World Trade Organisation, may also weaken the continued existence of state-owned tonnage.

Nevertheless, even today, governments continue to take a close interest in their merchant fleets, employing subsidies where necessary, using ‘chosen instruments’, maintaining reserve fleets and regulating performance. Political manoeuvring and intrusive oversight remain more often the rule than the exception. Merchant shipping continues to be a key industry of special public interest and state intervention in the competitive process remains a powerful force.

[58] Bruce, Alistair. “State-to-Private Sector Divestment: the Case of Sealink” in John Coyne and Mike Wright (eds) , Divestment and Strategic Change (Oxford, 1986) pp. 202-44.