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What supply chain disruptions mean for developing countries

As maritime transport freight rates reach a historic high, they drive rampant inflation — in particular in Global South countries and far away islands

Closed-down ports, held-up containers, and waiting ships in Odesa, Shanghai, or Los Angeles have an impact on supply chains and consumer prices around the world. As shipping markets are global, it is above all the smaller and more vulnerable economies that are more negatively affected by capacity shortages and freight rate increases.

As maritime transport freight rates go up, consumer prices will increase as well. Although it is often said that the shipping costs make up only a small proportion of the final price of high street shop prices, the historically high freight rates – especially for containerised shipping – do trickle down and lead to higher inflation.

Already in our UNCTAD Review of Maritime Transport 2021, we had simulated that the high freight costs will be passed on and lead to an additional increase in consumer prices by 1.5 percentage points globally, with Small Island Developing States and Least Developed Countries experiencing significantly higher surges. Latest data by the IMF confirms that our earlier simulation was spot on.

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An update of this assessment for an upcoming UNCTAD expert meeting show that the situation is not improving: As inflation has now reached us all, the contribution of container shipping costs to the price increases is rising. Globally, consumer prices are expected to go up by 1.6 percentage points; in Least Developed Countries the simulated increase is 2.4 percentage points, and in Small Island Developing States it reaches plus 8.1 percentage points.

And these are just averages. For many communities and families the higher prices lead to a significant reduction of real incomes.

Some countries are more affected than others

Far away islands are often confronted with small volumes, trade imbalances – ships tend to be empty on their return voyage –, and a high dependence on foreign supplies of energy and consumer goods. They pay two to three times more for the transport of their imports than the world average.

A recent comprehensive assessment of potential impacts of transport cost increases on different economies confirmed that not only do these countries already pay higher transport costs, but are also likely to see a higher impact on their economies should transport costs increase.

Many ships and containers are currently held up in ports. This includes ships anchored in front of congested ports in the United States, ships waiting for a re-opening of terminals locked down in China, and ships and containers that had to be rerouted following the war in Ukraine.

Confronted with a shortage of capacity, the market responds in two ways: First, freight rates go up. Short term demand and supply are both relatively inelastic – the demand and supply curves are steep – and small shifts to the left or right lead to high changes in freight rates.

Second, capacity is moved to the more lucrative and bigger markets. During the Covid-19 pandemic, when stimulus packages and growing e-commerce led to a surge in demand especially in the United States and Europe, the deployment of ships and containers on the main routes from China to North America and to Europe increased, while the deployment to many developing countries, especially South of the Equator, decreased.

Energy dependency and food security

The war in Ukraine has also led to shifts in other shipping markets, notably oil, gas, and grain. If gas and oil has to be transported by ship rather than pipelines, and from further away, demand surges – and so do freight rates. By the same token, countries that used to import grains from Ukraine now have to replace these food imports with imports from other suppliers, such as the United States or Brazil.

Developing countries, especially those most negatively affected by higher shipping costs, will need support to invest in trade facilitation solutions and transport infrastructure and services.

Especially countries in Northern and Western Africa, who had sourced large volumes of corn and wheat imports from Ukraine, now see a triple negative impact of the war on their food security. First, commodity prices have gone up; second, transport over longer distances is more costly; and third, as more ships are needed to transport the same volumes over larger distances but these ships do not yet exist, charter rates and thus transport costs increase further.

Investments in transport infrastructure can take decades and a new ship ordered today may be delivered only on three to four years. It will take time for supply to match the growing ton-mile demand and make up for port congestion.

Efficiency improvements through trade facilitation, digitalisation, port and customs modernisation can be achieved somewhat faster, but will not be enough to compensate for the current shortage of capacity.

Developing countries, especially those most negatively affected by higher shipping costs, will need support to invest in trade facilitation solutions, transport infrastructure, and services. While these investments will take some time, they will help make the most vulnerable countries more resilient to ongoing and future supply chain disruptions.



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