

[Home](#)

Change Over Time

There are many drivers, but global trade lanes rarely change overnight.

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China is expected to remain the planet's foremost export country, and the Trans-Pacific, the busiest trade lane in the world. All despite concerns over its rising labor costs and challenges associated with the inland migration of its manufacturing sector.

But, far from being an invitation to stand pat, experts say China's efforts to stay on top will pose new challenges to supply chain management and create an ever-greater demand for logistics and 3PL service providers who offer visibility and transparency in the first, last and every mile in between.

"I'm no economist, but broadly speaking, the biggest change to our global trade lanes in the past 10, 15 or even 20 years has been the rise of China. That's it," says Philip Behanna, senior VP of International Asset Systems, the Oakland, Calif.-based provider of cloud-based solutions to the intermodal and global container shipping community.

“Everything else, in my view, is stuff happening on the periphery,” he says.

To illustrate his point, Behanna points to the rest of Southeast Asia, which, by now, was largely expected to be full of “Asian Tigers” dominating world trade and taking on all comers.

“People talked about Thailand, Indonesia, Malaysia — even Singapore to an extent, although it’s always been more of a transshipment hub — and how they were going to alter trade lanes on the Pacific dramatically. But the vast majority of those countries never saw the tremendous growth that was promised,” he says.

“Indonesia is going all right, but Malaysia, instead of prospering, has turned into a stagnant backwater. Thailand has been adversely affected by political problems,” he explains. “As for Vietnam... a lot of people tend to speak of it in the same terms they use for China, making the assumption that because it has a centrally-controlled Communist government and trade-related goals that are similar to China’s, the outcome of its efforts in this regard are going to be similar.

“But Vietnam is not the same place. It’s a tiny, tiny version of it. And what they are finding is it’s a lot more difficult to achieve greatness as an export country than they anticipated,” Behanna continues. “You can look, for instance, at the terminal construction that’s going on near Ho Chi Minh City (formerly Saigon) — they over-anticipated their need for cargo capacity.”

He adds, “Somebody thought a ton of cargo was coming, but that just hasn’t transpired.”

China Dominance Continues

Such outcomes are a large reason why most logistics and shipping professionals see no end in sight for China’s dominance of the Asia-Pacific trade lane to the U.S. and Western Europe. Next year might look a little different than last year — an Indonesian lane might flare up in Southeast Asia, while Japan may start revving up to the north and west — but no one predicts that anyone will look back in five-years and say “Look, China came and went, and now there’s another big country in the export arena.”

“India could come up, but man-to-man, they’ve got some work to do to improve their infrastructure and their legislation. As a nation, it just doesn’t seem to have the political will to get on with it,” Behanna says.

“So if India is going to rise, it’s going to take a long time to do so,” he says.

But it is not only that no legitimate market contender has risen to demand a change in the way global trade flows; Behanna says one can’t overlook the fact China has “done, frankly, an astonishing job in moving its country forward without losing the control they value so highly.”

At its peak, four or five years ago, China’s export-dependent economy was growing at an annual rate of roughly 10 percent a year. But, as anyone who follows economics knows, even the Chinese government thought it was a bit much, preferring a less over-heated rate of 8 percent per year.

Why prefer less growth? Because the government’s main goal is stability and preventing widespread unrest could challenge its primacy. The problem China has is there is still a remarkable disparity between how its coastal cities and inland communities are doing. That’s a problem the nation’s leaders have been grappling with for years.

“I can remember people in China talking about this as far back as 1999,” Behanna says. “Even then, there was a lot of talk about the need to go west. That same year, I saw it first-hand, when my wife and I traveled

over land across China, going from Shanghai to Pakistan.

“As you leave the coast of China, you leave the glitzy cities and suddenly find yourself in far more gritty, coal-fired cities where life is a lot harder for the people you encounter,” he says. “While international companies are interested in moving further away from the coast because of higher labor costs there, the Chinese are facilitating it, in part, because providing jobs and improved conditions inland will stave off a possible civil uproar.

“I think one of the biggest threats to world trade — and the biggest possibility of a huge upheaval in the global trade lanes — is that somewhere toward the stage of this process, they drop the ball, something starts to go wrong, and all of the sudden China’s in trouble.”

Almost in unison, we both say, “That would change everything.”

“But it would change everything, because China is where everybody gets their goods and services,” Behanna says. “And while you might suspect this would be a great development for some of those countries we already talked about in Southeast Asia, there are very few countries or groups of countries that could step up and replace China in any sort of short time frame.”

Revaluating Sourcing

Scott Byrnes, VP of marketing for Amber Road, the global trade management software company, believes there are a whole host of reasons for companies to evaluate the trade lanes they are relying on.

“Some of it relates to economic uncertainties; some of it relates to the need to establish more resilient supply chains in the event of a natural or man-made disaster,” he says. “I know, without question, that many people are questioning the wisdom of sole-sourcing parts or goods because they’ve seen real-life examples in recent years of how disaster can absolutely kill you from a supply chain perspective.”

“From an economic perspective, as the cost of labor escalates in countries or regions that have been significant sources for goods or materials in recent years, people are having to evaluate the situation — re-evaluate in some cases — and determine, ‘Is this the best place for me to continue to source from? ‘Or, is it time for me to look somewhere else?’ And in many cases, they are.”

How is that affecting trade services providers like Amber Road?

“Certainly, we get a lot of questions from our customers seeking our opinions as they relate to options for sourcing,” Byrnes says. “Now, to be honest with you, we don’t do a lot of consulting outside the scope of the professional services related to the deploying of our product, but we do have products our clients can use to make better sourcing decisions.”

"There is still a remarkable disparity between how China's coastal cities and inland communities are doing."

“Anyone considering a change in where they source from has to look at a wide range of factors, because it’s not just a dollar and cents decision,” he continues. “You have to look at the full landed cost of such a move, and also consider trade compliance considerations. Then, there are certain countries that are more difficult to import into and export from, than others.

“So you have to think about customs issues, about whether the country you’re thinking of moving into makes frequent updates to their regulations, about licensing requirements — you really want to factor that stuff in,”

he says.

But for all the deliberating that Byrnes sees occurring, he says real shifts in a shipper's sourcing plans are still far from common.

“Truth be told,” he explains, “there are significant costs associated with making a sourcing change. Most people do not do it with a snap of a finger. It's a big change. Now, of course, if you are simply buying a good from a source in a particular country, you're going to have a far easier time of it than a company that has established an owned-and-operated plant in a foreign country to source from. That's a massive investment, and to walk away from that investment to evaluate a new sourcing option is a major, major decision.”

“Even if you simply want to go out and contract with a new manufacturer, you still have to establish a relationship with your new manufacturer and you need to go through testing the quality of their production. So it's a big deal. It's going to take a lot of pain for them to really, ultimately pull the trigger on sourcing from another country.”

Despite the high barriers and obvious disincentives to making a drastic change, Byrnes says people continue to kick the tires on a host of possible source nations.

“For instance, as the cost of labor has gone up, first in China, and now in India, a lot of people are taking a look at countries like Turkey, and of course, Brazil,” he says.

Trans-Pacific Partnerships

According to Amgad Shehata, VP of international public affairs at UPS Inc., one very noticeable trend the package delivery giant has seen is a growing recognition that the old supply chain and the old value chain are not what they used to be.

At the same time, he says, he's been incredibly encouraged by what he describes as “the progressive and forward leaning” talk occurring at the ongoing Trans-Pacific Partnership negotiations.

The Trans-Pacific Partnership Agreement is a free trade agreement currently being negotiated by nine countries: the United States, Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore and Vietnam.

“What we like about the dialogue that's occurring around the negotiating table right now is that there's a recognition that it's not just about tariffs anymore, it's really about efficiencies between the producers, the consumers, the wholesalers and the supply chain providers,” he says. “And it recognizes something we break into three buckets — that there are inefficiencies that affect supply chains that need to be addressed before the border, at the border, and also within the border of the trade partners.”

Recently, UPS invited representatives of the negotiating countries to its Worldport headquarters in Louisville, Ken., to have a dialogue about what the carrier sees as critical improvements necessary to enhance the flow of cargo along the world's global trade lanes.

“What we are really trying to create is a situation where the physical movement of goods is married up with the information regarding the goods,” Shehata says.

“What we told them is sometimes the information and the goods themselves travel different paths and have different points of arrival and that causes a lot of the inefficiencies. As a global integrator of cargo, we see

that every day,” he says.

“So what we’ve been doing is trying to interpret real world situations for them,” he continues. “At the same time, we also used their coming to Louisville as an opportunity to introduce them to our customers who are international traders, to also describe what they are seeing and to explain that for them, the harmonization of regulations and the coherence of regulations is their number one issue.”

He adds, “Shifts in supply chains happen because someone has created a business environment that’s more business-friendly and hurdles are removed. There’s a paradigm shift. It’s not over night. It takes time.”

Shehata says everything UPS hears during such meetings informs its approach to its supply chain-related activities.

“It really allows us to build the products,” he explains. “I know we’re a service, but within our service, we have these value chain products ... In Vietnam, we’re doing a series of workshops with entrepreneurs to expose them to how to integrate themselves into the western supply chain. Now, that’s more consultative than what you’d normally think of what UPS does, but a lot of these conversations are reciprocal ... they inform us about what we need to do and how we need to adjust to the changing environment.”