



Viewpoint -- China Next Door

Trading with China has been going on for centuries, but the realities of today's global economy result in China not only being next door but also knocking on your door.

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Nov. 7, 2007 -- Today's geographical and geopolitical climate presents many challenges to supply chain professionals working with China. The challenges include:

- Distance by freighter from the port in Shanghai, China to Long Beach, Calif. -- 5,810 nautical miles
- Nationalist versus a capitalist government structure
- English versus Chinese languages

Despite these challenges, the opportunities and growth of international trade are exploding at an unprecedented rate. The following numbers illustrate the growth of the much talked about U.S./China trade relationship.

- In 2006 U.S. exports to China last year totaled \$55.2 billion and U.S. imports from China totaled \$287 billion
- Since China joined the WTO in 2001, U.S. merchandise exports to China increased 187%. During the same period, U.S. exports to the rest of the world grew 38%.

The monumental changes in these numbers should be characterized as a surge.

The Surge of Trade Regulations & Logistics Service Providers

In addition to the meteoric growth in global trade there is a parallel rise in companies willing to help facilitate international trade and countries' trade regulations. In 2006, U.S. companies spent \$170 billion on third party logistics.

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All of this activity is significantly increasing the volume of global trade as stated above and there is no reduction in sight, even given the significant increase in pressure from environmental lobby groups who protest against the negative effect on the environment driven through our constant desire to have manufactured, processed and fresh goods available from overseas.

However this environmental pressure should not be overlooked as it is global in nature. In the global retail sector in particular consumers are being driven to make their mark most effectively by turning away from imported goods with high 'green miles'. The trade-off in locally produced goods versus environmental impact of offshore products is adding another layer of complexity to the supply chain. This is countered by an accelerated regulatory environment. Customs and compliance requirements which were starting to relax up until five or more years ago, have responded to the geopolitical changes in the world with border controls being strengthened.

The introduction of the U.S. regulations such as C-TPAT and Sarbanes-Oxley are putting significant pressure on U.S. companies' ability to react and take advantage of these market opportunities.

Furthermore, today's cost effective market is giving rise to the next generation of our competitors who through global trade can reach our own home markets. The need to keep up with the dynamics of an ever changing global economic environment and the complexities of legislative governance unique to each and every country is critical and failure to do so can carry significant penalties or even lead to the demise of the business.

Accelerated global trade, which drives a need for high velocity and lean supply chains, bumps up against heightened regulatory changes which are designed to minimize risk. So how do we go about ensuring the benefits that we saw in buying from or selling to a market overseas is not eroded through the additional lead times, workloads and risks involved in global trade?

Extending supply chain processes, information and connectivity is critical to the future of any company reliant on global trade. This is made even more difficult with the growing number of participants in the supply chain including the outsourced manufacturing supplier, freight forwarders, customs brokerage houses, importer managing logistics and finally the retailer.

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Supply Chain Technology

In the past we have seen initiatives like Supply Chain Collaboration (SCC) and Supply Chain Event Management (SCEM) promise significant benefits right across the extended supply chain. However, these like so many other initiatives have failed to deliver. Why? The answer is relatively simple but has been so difficult to achieve, at least until now. These initiatives were all biased on the large U.S. multi-national being the supply chain master. Few businesses were in a position to deliver the information, connectivity and visibility required to take them from great sounding acronyms and turning them in to real improvements in the supply network delivering cost benefits, reducing supply chain complexities and positively impacting companies' bottom line.

The information required has always been present in employee knowledge, emails, and systems or on voice mails but unfortunately completely disseminated across departments, organizations, companies and continents. How do you take information, much of it not available electronically, filter it and analyze it so that the user could derive a real benefit from its availability. More importantly how do you get all the businesses and government agencies involved in the process to accept the idea of sharing information electronically?

You make collaborating, connecting and sharing easy for everyone, big or small, business or government. This is becoming a reality today, solution providers are moving to offering their solutions in a Software as a Service (SaaS) environment with access via the internet so that even the smallest players have access to a solution.

Even today's rapidly expanding manufacturing nations are bypassing 30 years of systems learning curve and moving directly to the latest technologies to ensure they can fully satisfy their customers through a value added service that justifies an increased price helping them to develop their businesses and nations even further. This is even more prevalent for the service providers in the supply chain like Logistics Service Providers (LSP's), 3rd Party Logistics Providers (3PL's), Customs House Brokers (CHB's) and Freight Forwarders, all who are facing more competition based on the growing global trade market and have to offer further value to their customers to stop them moving to a competitor.

Expanding Opportunities

Trading across the oceans is not new, ships carrying goods between countries have been sailing the high seas for hundreds or thousands of years. However, with the advent of instant communication, the ease at which people travel the globe, we are getting closer to a single virtual continent. The complexity of managing the trade has not decreased as the physical and regulatory worlds are still accelerating. However, the market opportunity has never been greater.

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Today, we have an increased range of transportation modes to choose from enabling a broader range of goods to be traded more widely, but the world is continuing to change and the problems faced hundreds of years ago are still prevalent today, they just happen more quickly and in greater volume.

Trading with China has been going on for centuries, but the realities of today's global economy result in China not only being next door but also knocking on your door. The difference is today we have the ability to reduce the impact of a more globally complicated supply chain and everyone in the supply chain is focused on making this happen.

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