OCTOBER 2013

JOC GROUP

Doing Business in a Changing China

How China's Economy, Developing Middle Class and Regulatory Regime Are Altering the Logistics Landscape

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Produced by JOC Group Inc.

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I. INTRODUCTION

China's remarkable transformation from a fast-growing economy focused mostly on exports into a continent-wide consumer economy focused on satisfying the needs of its own burgeoning middle class is proceeding rapidly, offering huge opportunities and challenges for foreign providers of manufactured goods, consumer products and contract logistics services.

In recent years, logistics providers — like the manufacturers and retailers they partner with — have focused on meeting the growing, increasingly sophisticated needs of the Chinese consumer and not just the global market for Chinese-made manufactured goods. As a recent report by PricewaterhouseCoopers states, "Seven of the world's twenty largest ports are located in China — and the traffic is not all directed towards North America or Western Europe."

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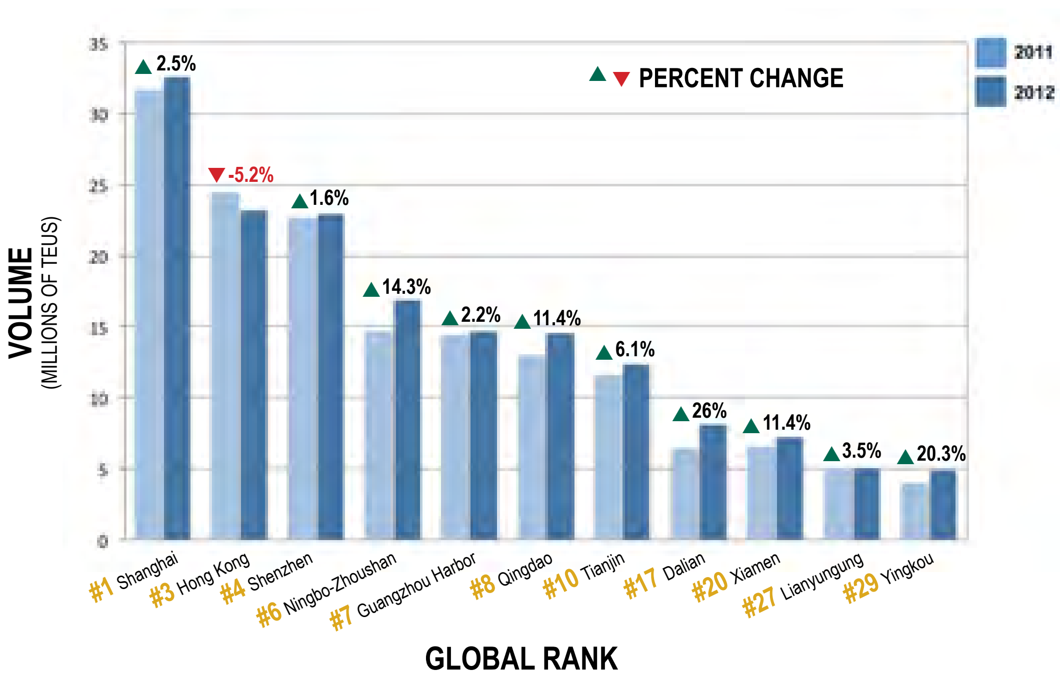
FIG. 1: CHINA'S LARGEST CONTAINER PORTS

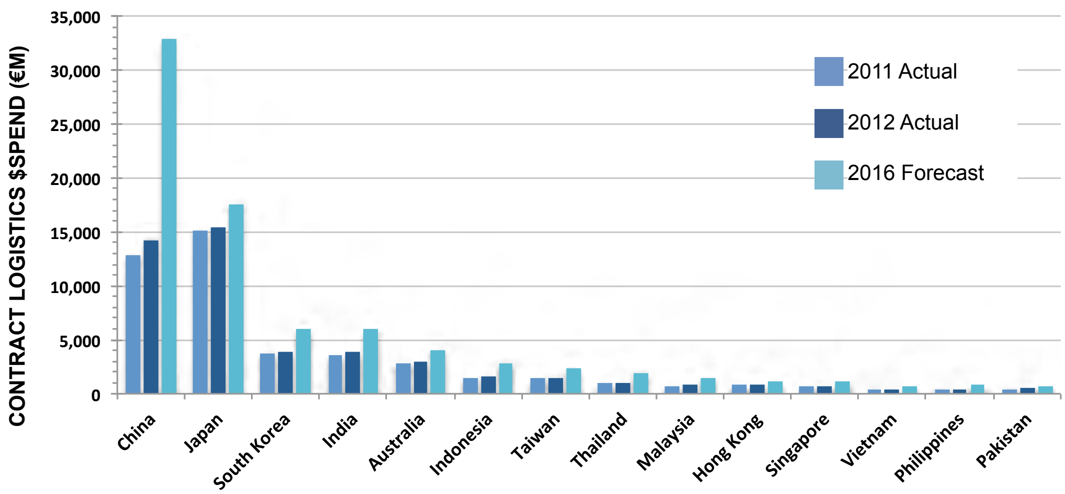


Since 2006, the sector has consistently experienced growth rates of more than 25 percent a year. In 2008, China's transportation and logistics market had an estimated value of more than $506 billion, and it's continued to grow despite the impact of the global recession.

According to U.K.-based market research firm Transport Intelligence, the Asia-Pacific contract logistics market is projected to grow at a compound annual growth rate of 13.4 percent between 2012 and 2016. Growth will be strongest in China, with that market expected to double over the five-year period. As a result, China will become the largest contract logistics market in the region, overtaking Japan, which will experience the lowest level of growth.

The Asia-Pacific contract logistics market is projected to grow at a compound annual growth rate of 13.4 percent between 2012 and 2016

FIG. 2: CONTRACT LOGISTICS SPENDING, BY NATION



"With the development of its economy and the growth of its middle class, the Chinese people are starting to spend more money, and the middle class now represents around 300 million people in China," says Bernard Jiang, China supply chain and healthcare logistics director for UPS. "That number is predicted to double by 2020. That means, instead of being a traditional export country, the country itself has now become a market, especially for foreign brands. In China, there are 1.35 billion people, and two-thirds of those people are going to be living in Tier 3 and below cities. With further population and urbanization, we see a growing need to serve customers in central and western China."

CHINA GOES WEST: THE OPPORTUNITIES AND THE CHALLENGES

Until recently, most foreign investment in China's logistics industry was concentrated in coastal areas such as the Yangtze Delta, Pearl River Delta and the Bohai Rim. In recent years, however, there has been a strong trend of extending the geographical focus into the country's interior.

Setting the stage for such opportunities, the Chinese government has made massive investments in the country's transportation infrastructure, building and extending lines deep into the interior. Between 2006 and 2010, the government spent approximately $20 billion on upgrading its railway system. By the end of 2012, China operated 98,000 kilometers of conventional railways and 9,356 kilometers of high-speed rail lines. The government, which recently restructured

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its Ministry of Railways into three new organizations, in 2013 is on track to invest $105.9 billion on railway fixed assets, mostly to construct 5,200 kilometers of new lines. The government's target is to increase the network to 120,000 kilometers by 2020, and 280,000 kilometers by 2050.

When it comes to a modern nationwide road network, China is building a National Trunk Highway System at an estimated cost of $240 billion. By 2020, China expects its overall network of expressways and other highways to reach 3 million kilometers, making it one of the world's most extensive networks.

FIG 3: CHINA'S NATIONAL TRUNK HIGHWAY SYSTEM

Meanwhile, China boasts the world's largest network of navigable inland waterways, extending more than 120,000 kilometers. The network, which carries more cargo than any other such system, consists of more than 5,000 rivers. The navigable length of the Yangtze and its tributaries alone is greater than the combined length of all navigable waterways in Western Europe and the U.S., according to the World Bank.

According to a recent survey by the U.S.-China Business Council, 50 percent of the organization's corporate members have operations in the central and western regions of China. Fifty-five percent of these operations have been established in these locations during the past five years, and 52 percent of these companies plan to expand their operations or relocate them.

Why are so many U.S. companies heading westward? It's not simply because labor costs are lower, and logistics costs are more competitive, now that the transportation infrastructure has improved. "While some operating costs are indeed lower in provinces away from the coast, this is not the overwhelming driver for westward expansion. U.S. companies are looking at the inland cities as a fast-growing source of new business opportunities," the USCBC survey says.

A primary motive among those companies has been to position themselves to "access new markets" among China's own burgeoning middle class and professionals, USCBC Vice President Erin Ennis says. Growth in China's national GDP rate may have slowed from its historic peaks, but economic growth in its central and western provinces remains "really fast," notes David G. Hartman, China practice director at Blue Canyon Partners, a Chicago-based consulting firm. Ultimately, many locations in China's interior "are going to catch up with Shanghai" and other major cities on China's coasts, says Hartman, who has spent the last 20 years working in Beijing. "For example, cities such as Guiyang in the southwest province of Guizhou, one of the poorest in China's interior, have never before been tempting locations for manufacturers and distributors because it took so long for components and finished goods to reach — and return from — China's mountainous interior. As these provinces are increasingly linked by roads and railroads to larger population centers, they become more attractive locations for manufacturers, retailers and their suppliers."

In one notable case, Taiwan-based electronics giant Foxconn Technology Group announced plans in July 2013 to establish a plant in Guiyang, capital of Guizhou. In 2010, Foxconn opened a $2 billion plant in Chengdu, capital of Southwest China's long-remote Sichuan province, to manufacture laptop computers. Terry Gou, chairman of Foxconn, said the new plants would use the most advanced technology.

II. THE CHALLENGE OF CHINESE LOGISTICS

In 2012, China ranked 26th on the World Bank Logistics Performance Index, which compares the efficiency of 155 economies, just below Ireland, Italy and South Africa. That was up one spot from China's ranking of 27th on the same index for 2010.

Nevertheless, the continued fragmentation of the Chinese market is a key barrier for efforts by Chinese logistics companies to provide world-class services, Jiang

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notes. Although China provided the third-largest number of multinationals among emerging nations in a recent Fortune Global 500 survey, the country contributed just one transportation company: China Railways, a state-owned company that had a mere 0.25 percent of total revenues of all Fortune Global 500 companies.

In the world of logistics services, there are some 100,000 players, few of which have nationwide scale. Most of these players operate within a single province or city limits. This means that when a company ships a widget from, say, Shanghai, to Chengdu or Xian, even deeper into the interior, it needs to use a series of transportation providers to haul it to its ultimate destination. "These inefficiencies raise costs, and deprive shippers of traceability and supply chain visibility," Jiang says.

With the exception of China's Sinotrans, all of the top 20 multinational third-party logistics providers are based in industrialized countries, PWC notes in its report.

Several foreign transportation and logistics companies have made direct investments in the Chinese market. Some are looking for opportunities to set up their own businesses, while others have sought to create joint ventures with domestic logistics companies that are active in the express market or to acquire private logistics companies in China in order to expand their networks and provide more value-added services to existing clients.

The push into China's vast interior is putting additional stress on many of these service providers because their customers need to satisfy consumers in China's domestic market — where increasingly sophisticated buyers are more demanding than ever — as well as customers in foreign markets that import vast quantities of made-in-China goods.

Foreign companies are clearly mindful of the challenges of doing business in these new locations. In the latest survey by the U.S.-China Business Council, 22 percent of U.S. companies said transportation and logistics were "the greatest challenge associated with establishing operations in inland China."

"This is not just an issue for foreign companies that are doing business in China, but for China's growth in general," Ennis says.

Although the Chinese government has spent billions of dollars on modernizing its transportation infrastructure, one of the continuing challenges is "the low quality of infrastructure" in more remote regions, Jiang notes.

The country ranked 74th in the World Economic Forum 2013 global infrastructure rankings, behind countries such as Ukraine, Kenya, Armenia and Rwanda. Its road, railroad port and air infrastructure, key components of the overall ranking, came in 54th, 20th, 59th and 65th, respectively.

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China's global rank in overall, road, rail, port and air infrastructure, according to The World Economic Forum.

FIG. 4: CHINA INFRASTRUCTURE

a. Overall Ranking

RANKING	OVERAL
31	Slovenia
54	Sri Lanka
62	Rwanda
64	Kazakhstan
70	Ukraine
73	Gambia
74	**CHINA**
75	Ecuador
82	Indonesia
85	India
98	Philippines

China ranked #74 in overall ranking

For a complete list of global infrastructure rankings, see http://www.joc.com/nations-best-infrastructure-2012-13.html

b. Roads

RANKING	ROADS
18	U.S.
35	Brunei Darussalam
43	Swaziland
54	**CHINA**
55	Italy
83	Norway
88	Uruguay

c. Railroads

RANKING	RAILROADS
6	Finland
12	Austria
17	U.S.
20	**CHINA**
24	Denmark
31	Russia
48	South Africa

d. Ports

RANKING	PORTS
30	Japan
48	Austria
52	Dominican Republic
59	**CHINA**
62	Mexico
74	Kuwait

e. Air

RANKING	AIR
19	Canada
40	Latvia
52	Lebanon
65	**CHINA**
71	Guatemala
73	Italy

Source: World Economic Forum, Executive Opinion Survey

Beyond deficiencies in its physical infrastructure, he says, China suffers from a shortage of domestic companies that can provide modern logistics facilities and warehousing space, as well as a shortfall in cold chain facilities and other advanced technology. Jiang cites three fundamental limitations on the capabilities of domestic logistics service providers in China:

- A limited supply of modern logistics facilities and warehouse space.
- A lack of world-class technologies that can bring together fragmented logistics processes within China, and bring world-class contract logistics to China.
- Limited domestic infrastructure for managing multimodal import, export and domestic transportation as well as trade compliance.

As e-commerce increases in popularity, Chinese customers have rising expectations about the delivery of the products they purchase online. In 2012, two of Alibaba Group's portals (one of which is business-to-business, the other business-to-consumer) together handled $170 billion in sales. Another Alibaba site, Taobao, is China's largest consumer-to-consumer platform, with 500 million registered users, another 60 million regular visitors, 800 million products and an average sales volume of $48,000 per minute as of July 2013. Taobao's total sales exceeded $160 billion in 2012.

Visibility and traceability have become a major concern not just in e-commerce, but also in the food industry, where shipments of tainted foods have cast dark clouds over the reputation of some Chinese companies. Now that supply chain security and reliability have become high-profile issues, those logistics companies that can provide related high-value services for shippers in China have a good business opportunity to expand their presence, Hartman notes.

As e-commerce increases in popularity, Chinese consumers have rising expectations about the delivery of the products they purchase online.

"For people who are good at logistics, and who have a partner, it will be a good time even if manufacturing (as an economic activity in China) is not enjoying the booming growth that it did in the past," he says. "The information revolution has made people aware of all these things" very quickly. "Every day, a new danger speeds like wildlife," endangering — however unfairly — even the reputations of such companies as KFC or McDonald's.

The U.S.-China Business Council survey cites another challenge for U.S. and other foreign firms in China: "Companies report that the workforce may be less qualified for some positions, especially if the immediate area lacks high-quality universities and technical schools. Of great importance, too, is the mindset of local regulators with whom the company must interact on a daily basis. Follow-up conversations with survey respondents indicate that local government officials in the central and western regions are roughly 10-15 years behind their coastal counterparts in terms of understanding international business practices and needs."

Of all the challenges that companies are facing, transportation and logistics may be among "the easiest of them to address," Ennis argues. Although upgrades in China's physical transportation infrastructure can — and are — being addressed through costly government-financed programs, it takes much longer to build high-quality universities and technical schools, train workers about international business practices and transform traditional mindsets. "Logistics is the opportunity that gives the biggest bang for the buck," she says.

To meet the needs of companies serving China's vast and growing domestic market, the key for logistics service providers is to establish efficient and flexible import-export logistics solutions via a network of field stocking locations, distribution centers and integrated transportation capabilities, Jiang notes. Leading contract logistics networks in China now incorporate facilities designed to meet specific customer needs — both built-to-suit, and facilities made for multiple clients. These include bonded and non-bonded facilities. Typically, a network of customized hubs and spokes provides efficient warehousing and distribution technologies. The most efficient contract logistics networks in China are expanding their footprints so they can provide connectivity to the transportation infrastructure. "The key to success is to position one's operations in the right location for the optimal business model to meet demand," Jiang says.

III. CUSTOMS COMPLIANCE AND REGULATORY CHALLENGES

Of all the challenges that companies are facing, transportation and logistics may be among "the easiest of them to address."

Beyond such infrastructural challenges, logistics companies face the challenge of complying with the complexities of China's regulators, including its customs agency. The USCBC regularly hears from its members that "China is incredibly difficult to do business with, in comparison with some other markets where it is easier," Ennis says.

A recent UPS report agrees, noting, "Customs and regulatory challenges in emerging markets are often the bane of an effective supply chain." In China, Jiang notes, these challenges include:

- **The inconsistent application of regulations among different entry points within the country, and even within the same point of entry, by different enforcement officials.** Thus, a regulation that is strictly applied in one location may be loosely applied or ignored in another. Without the guidance of a trustworthy local partner — and a representative of a global logistics service provider — newcomers to China may be unprepared to deal with the inconsistency in these tariffs and taxes. Companies often react to this challenge by choosing the most cost-efficient port for bringing in their cargo, Jiang notes. If, for example, the duty imposed by officials at one coastal city is 10 percent, but only 5 percent at another inland entry point, then the importer will chose not to bring that product into China via the coastal city

- **A lack of understanding among the Chinese officials about the international trading model adopted by multinational corporations.** This may make it difficult for foreign companies to discuss alternative trade facilitation strategies with authorities, or may result in the introduction of new laws that impede effective business flows.

- **The fact that most customs enforcement in China occurs at border points, slowing companies' efforts to speed their products to market.** This is a difficult supply chain challenge for sectors where lean, just-in-time manufacturing is the norm. In developed countries such as the U.S., in contrast, the prevailing approach to enforcement involves strategic risk-management. Most enforcement-related checks occur post-shipment, allowing for the smooth flow of goods.

In China, Jiang notes, regulatory challenges are industry-specific. Different kinds of regulatory hurdles exist for such sectors as pharmaceuticals/health care, retailing and other product sectors. In the pharmaceutical sector, for example, companies must comply with regulations set not only by the national government, but also by the various local provincial agencies that regulate such trade.

In the health care market in particular, Jiang notes, the challenges for third-party logistics providers such as UPS is that the 3PL model in China "is very immature. Regulations for the distribution of pharmaceuticals by third-party logistics providers are not fully established and there is lack of clarity as to what kinds of licenses are needed."

Despite there being a broad divergence of regulations from one province to another, health care product providers typically don't serve customers in just one province. "The challenge faced by pharmaceutical companies looking to serve a broad base of customers is made more difficult as a result of needing to comply with various sets of standards, resulting in inefficiencies in the supply chain," Jiang says.

In an effort to reduce such differences, UPS is working with provincial food and drug agencies to help them understand the benefits 3PLs can provide. "We are working to raise awareness among regulators" of these issues, "but these are regulatory inefficiencies that will take time to improve," Jiang says.

Another concern among many U.S. companies involves customs fraud on the part of some Chinese importers. Numerous importers in China have asked their U.S. suppliers to undervalue their invoices, according to James Chan, president of Asia Marketing and Management and who consults for U.S. companies selling into China. "They say, 'When you send us, say, 300,000 units that sell for five dollars each, simply invoice us for the cost of your raw materials," rather than the sales price of the final product, Chan says. They want to avoid paying the Chinese government value-added tax and import duties.

Some newcomers to China may be tempted to satisfy their Chinese customer by underestimating the value of their shipments. In an effort to build a long-term relationship, "You may want to please your customer or distributor in China," Chan says. "But you cannot be accommodating because you are breaking both U.S. and Chinese laws. China Customs knows this extremely well. They know that there is a lot of smuggling."

Magnifying the challenge for customs authorities, Chan notes, is that a growing number of industrial imports into China are sophisticated goods such as specialty metals and fibers that are harder for customs officials to identify than the earlier generation of lower-value imports.

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Contract logistics professionals and other experienced China hands also warn against any temptation to win favor from Chinese officials by extending bribes. Some importers do so in the hope that a close call about customs classification "may go your way if you have a friend" in the government, Hartman says. They may warn a Chinese official, for example, that their company can't justify building a new factory in a nearby Chinese location if they don't get a favorable ruling about the duty rate on imports vital to such a plant. Such behavior isn't only reprehensible, professionals say, but it's also often ineffective. In a further word of caution, Hartman adds, "But will that customs ruling last for the lifetime of the factory? What will happen when a new sheriff comes to town," replacing the corrupt official who made the original judgment?

IV. THE PUSH TO REFORM CHINA'S REGULATORY BARRIERS

The USCBC in a recent report identified sector-specific recommendations that government officials may consider to achieve China's goals of increasing imports and domestic demand. The report covers five issue areas: consumer goods imports, customs procedures, meat imports, the China Compulsory Certificate mark system and advanced agricultural products, including genetically modified organisms.

In each area, USCBC offered suggestions to make importing easier, including:

- Lowering or eliminating import and consumption tariffs on high-end consumer goods, while engaging foreign stakeholders on tax and tariff considerations about these products to fully evaluate the impact of policy and tax decisions.
- Establishing an import de minimis value threshold in line with international levels, and bringing Chinese customs standards in line with international customs standards to facilitate trade.
- Lifting restrictions on imports of U.S. beef and certain poultry, and aligning domestic standards with international standards.

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- Eliminating duplicative procedures in China's conformity assessment system, and complying with a commitment made at the 2012 U.S.-China Joint Commission on Commerce and Trade to allow qualified foreign-invested certification and testing organizations to conduct testing for the CCC mark in China.

- Allowing for concurrent approval for advanced agricultural products, including genetically modified organisms, while eliminating the zero-tolerance policy and implementing international best practice by establishing a science-based threshold for low-level presence of GMO imports.

Multilateral organizations also have called for reforms of China's customs regime. In its 2011 Global Trade Analysis Project report, the Asia-Pacific Economic Cooperation — a forum that brings together 21 Pacific Rim countries to promote free trade and economic development — concluded that if China developed a more modernized customs system aligned with international best practices, the country would become better integrated into the global trading system, benefiting its economy and helping it to increase imports.

Although China has sought to harmonize many areas of its customs rules with international norms, it also has imposed a number of standards that deviate from World Customs Organization guidelines.

More specifically, APEC identified three areas in which immediate action to improve the efficiency of its customs clearance would make it easier for China — and its trading partners — to achieve faster growth. First, APEC said China's customs agency, the General Administration of Customs, imposes requirements that ultimately slow the shipment of goods to China's own consumers. Most imported goods valued below 400 yuan ($64) — the "de minimis" level — are cleared without customs declarations, and duties and taxes aren't collected. But this level of de minimis is far below the de minimis levels in other countries, such as the U.S. ($200), Malaysia ($166) and Japan ($127).

In practice, "This slows the delivery and processing time for a product to get to market or components to enter into supply chains, creating bottlenecks in the system and effectively delaying and reducing trade," the USCBC notes in its report. "Increasing this threshold and bringing it closer to international levels could benefit China's market by facilitating trade, improving the speed at which products are brought to market, and ultimately boosting consumption."

Equally troubling for many U.S. companies that do business in China is that, although China has sought to harmonize many areas of its customs rules with international norms, it also has imposed a number of standards that deviate from World Customs Organization guidelines. "These deviations often cause misunderstandings and operational delays for producers and exporters seeking to transport goods through customs, including both foreign manufacturers and many domestic exporters," the USCBC report says.

One Chinese customs standard, for example, requires express delivery carriers to complete export manifests four hours prior to aircraft loading. Because of the nature of express delivery services, however, operators often don't know their full shipment orders until closer to takeoff. To better facilitate trade and promote efficiency within its trading system, the USCBC recommends that China harmonize its customs standards, such as this one, with international standards. "Making such changes would help international exporters comply with China's customs system, and ultimately bolster trade with other countries," says the USCBC report, published in June 2013.

More specifically, the USCBC recommends that the GAC and other Chinese government agencies establish a de minimis level in line with international levels; harmonize Chinese customs standards with international standards, such as the one dealing with export manifests; and implement a 24-hour user-fee system to enable round-the-clock customs handling that realistically reflects the country's trading activity. "Allowing commercial goods transporters to pay certain customs fees upon entry into China will facilitate imports, and ease customs officials' workloads," the report says. "These changes would also help to modernize China's customs system, and enable it to meet the demands of China's producers and consumers."

BEST PRACTICES/LESSONS LEARNED

To take full advantage of these opportunities, foreign companies must master the best practices of companies that have pioneered in providing transportation and logistics for the new China, companies and logistics providers agree. Despite progress, the road to success is filled with pitfalls.

As global providers of logistics services expand their capabilities in China, local logistics providers are increasing their range of services and expertise in an effort to keep pace with the best practices of leading global providers of contract logistics. Richard Armstrong, chairman of supply chain research and consulting firm Armstrong & Associates, for example, notes several capable Chinese non-vessel operating common carriers are expanding from their bases in Shanghai and Hong Kong. Such Chinese companies as De Well, Scanwell, Topocean, City Ocean and Hecny all handle about 100,000 20-foot equivalent container units a year. In addition to their NVOCC capabilities, these companies are involved to varying degrees in air freight, value-added warehousing and ground transportation activities.

De Well and Scanwell have their own set of unique offerings, and they are expanding into purchase order management and end-to-end supply chain solutions, Armstrong noted. In addition to its NVOCC operations, Scanwell-Hong Kong handles 40,000 metric tons of air freight a year. About two-thirds of these shipments are garments for customers such as JCPenney. The company also manages truck transportation and distribution into

China for companies such as Tyco Electronics. An important commodity for distribution is wine, most of it warehoused at NISKO, a partner company. Scanwell also maintains contracts with 15 container lines in Hong Kong. Electronics and other high-value, high-tech shipments are handled primarily by competitors, such as the large global supply chain providers such as UPS.

What best practices have the most successful logistics companies developed over the past several years? Jiang stresses the need for communicating effectively with government officials and customers to understand their requirements and perspectives. "You need to talk to the government officials to understand those regulations they are talking about, and what really are the hurdles for the companies doing business in this province versus the other provinces," he says. "The China contract logistics market itself is really very fragmented. That brings additional challenges for any company that wants to sell into China with a single standard. What people are seeking is a global, standardized service with traceability, visibility, and end-to-end service. They don't want to pick one service provider for warehousing, another service provider for international shipment, and another one for local delivery."

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George F. Brown Jr., senior partner to Blue Canyon Partners, and David G. Hartman, director of the consulting firm's China practice, identified in a recent article the four basics lessons companies must recognize if their growth plans that target China's markets are to succeed:

- **First, be patient, because success won't come quickly.** "That's a bit discouraging," Brown and Hartman write. "Even though growth gallops in China, relationship building in that nation won't occur overnight. While it takes little time to sign a meaningless joint venture agreement, it takes much longer to build a relationship in China that delivers on sales and profits."

- **Develop strong personal relationships with your business partners and customers.** "To develop relationships in China, continuity and consistency are quite important. Executives involved in developing these relationships must stay the course," Brown and Hartman advise.

- **Meet the needs of local markets and suppliers.** "Remember that China's economy, while changing rapidly, is inherently local," they write. "The supplier or distributor that will be the best partner in Beijing is unlikely to be the one most likely to be successful in Chengdu, and vice versa. Because relationship is everything, the concept of a strong national firm is at most an emerging one, more likely to be a widespread reality in 2021 than 2011. Thus, finding partners is a task that must be implemented on a local basis – and many times over – to reach all of China's markets. This doesn't mean that each prospective partner won't argue for a national, exclusive relationship. They will want that. But they are unlikely to be able to deliver successes beyond the local markets in which they are strongly positioned, in terms of relationships."

- **Be prepared for the other parties who will be at the table in relationships with Chinese companies.** In China, key government official involvement is prerequisite to anything of consequence being done. Conversely, in the U.S., we rarely think of that as relevant. Critical third parties must be included if the relationship is to flourish. Government is the most obvious example, including both national and regional branches. However, in many instances, key third parties can also include universities, design institutes, and similar organizations.

James Chan has one more bit of advice: Do things by the book, no matter what the short-term cost. "A good exporter must go by the book, no matter what your buyer asks you to do," he says.

THE VALUE OF STRATEGIC PARTNERSHIPS

Faced with such major challenges, an increasing number of companies are forging partnerships with global logistics service providers, not only to provide all of the technological infrastructure they require, but also the necessary expertise in local trade compliance and other regulatory requirements. A majority of multinational corporations use global logistics service providers in China, while only 15 percent of domestic Chinese companies use global logistics providers. Global logistics service providers, however, now have about a 20 percent share of China's logistics market, a relatively low figure when compared with 35 percent in the European Union, 57 percent in the U.S. and 80 percent in Japan, according to a report by PricewaterhouseCoopers.

"There is value in working with global logistics providers to leverage select global best-practices and competencies that can be adapted to the local China market," notes Bernard Jiang, China supply chain and healthcare logistics director for UPS. By aligning with a global contract logistics provider like UPS, manufacturers choose among several world-class solutions that can be adapted for the activities in China. This enables firms to tap into a comprehensive infrastructure that brings the whole portfolio to bear in China; use world-class software tools that bring together fragmented logistics for a countrywide solution; and manage multi-modal import, export, and domestic transportation and trade compliance.

Such partners create synergies that not only improve business performance and support business directives, Jiang notes. They also improve revenues, reduce costs and improve customer satisfaction by delivering the right goods to customers on time; eliminating stock-outs; increasing productivity; and smoothing the way into new markets. Using a single global logistics provider also reduces risks by eliminating errors and omissions, and improving compliance. The growing use of electronic declarations and other paperless procedures makes it easier for information to be shared among different bureaus in various provinces, using pan-Chinese electronic platforms.

Although advanced technologies can play a key role in helping their customers achieve their goals of supply chain efficiency, reliability and visibility, forging the right strategy "is not as simple as setting up a standardized, one-size-fits-all solution," Jiang adds. "Global logistics providers have a breadth of knowledge to offer a suite of technological systems to ensure that each technological 'solution' meets the desired business model and its objectives."

In China, UPS uses the same information technology platforms it offers globally for post-sales and distribution. UPS this fall also is looking to implement management tools that enable companies to set up real-time dispatch and milestone updates from any local or domestic carriers that provide up-to-the-minute information about their deliveries, Jiang says. Broadening UPS' relationships with carriers "gives us greater flexibility to leverage multiple carriers over larger areas, in order to provide greater long-term cost savings," he adds.

"An experienced logistics service provider like UPS can bundle all of the above infrastructure with the expertise of local trade compliance and regulations to ensure a solution meant for zero disruption to the supply chain," Jiang concludes. A fully integrated approach to transportation and trade compliance "can make or break the success of a company. For example, a consumer electronics company may require testing and refurbishment of returned products to quickly service the demands of its domestic consumers" in China.

Such a solution is all but unthinkable for logistics providers that have limited offerings of technology. Moreover, global contract logistics providers can manage the complexities of the reverse logistics supply chain – the flow of products that must be returned from customers because of product defects, company recalls or other sources of dissatisfaction. And when stocks need to be replenished, this sort of contract logistics provider can deliver the right goods at the right time, using seamless multimodal transportation, even in the challenging environment of today's rapidly changing China.

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