

The market and the production conditions are only one side of the coin when companies engage themselves in China. Whether it's procurement or production in China, or exports to it, logistics have to be taken into consideration from the start. Logistics will also be an important topic for exhibitors at AchemAsia.

The Chinese industries with outstanding growth rates are automotives, telecommunications, chemicals, and pharmaceuticals. It is expected that their increase in revenue will lead to an escalating demand for modern transport and logistic services in the next few years. Thus the market offers great potential for strong international logistic service providers.

Pictures: archives

Logistics market China – potential and risks

The moving of production and purchasing activities to China, and the continuously increasing trade volume between Asia and the western world has had tangible results. The companies' supply chains have changed fundamentally, not only geographically but also in terms of strategy and operations. The growing trend to shift procurement and production to China has had a major impact on the logistics market. Logistics companies are facing new challenges. For instance, if service providers whose main business has been in Europe want to support their customers when they enter the Chinese market, they must build their own networks in China and other Asian countries. Production and service companies, on the other hand, must take the peculiarities of the Chinese market into consideration and develop long-term planning while keeping in mind that efficient logistics cannot be taken for granted everywhere in China.

Since China became a member of the World Trade Organization (WTO) in December 2001, logistics in China have improved tremendously. For instance, before China became a WTO member, only Chinese entrepreneurs were allowed to establish transport and logistics companies, whereas today foreign logistics companies may also receive the necessary "A" license. With this license a company is permitted to offer the entire range of logistic services and issue legally valid logistic documents. However, the license, which is issued by the Chinese Foreign Ministry, is only valid for a single province, and a license request for an additional province can only be submitted after one

year. This means that it takes several years before a logistics firm can offer its services across provinces.

Important logistic parameters

In addition to the "A" license, companies must also take into consideration a number of other basic elements that play a role in Chinese logistics. These include the large distances between the country's economic centers. When designing logistic processes, the need for intermediate storage has to be planned in, for example when freight is unloaded from railway cars onto trucks. Transit times are usually long; the average speed of freight transports in China is very low due to the often outdated and in many areas underdeveloped infrastructure. Also, special packaging might be required to prevent damage of the products during the long transport. To speed up the processes, an increasing number of production companies

are commissioning local service providers to handle the loading and unloading and storage and transport operations, and to make sure that processes connect smoothly without major delays. Often additional insurance and quality checks are necessary to insure a company against transport damage and quality loss of the freight. Depending on the type of products, companies need to figure a higher percentage of damaged and defective goods into their calculations.

A special problem is the widespread product piracy in China, which causes losses in the range of several billions every year. This problem has prompted companies to invest in identification technologies that make their products identifiable and copy-proof

Study: China's logistic costs

The logistic systems in China are inefficient compared to those in Europe and the United States. As a result, the share of logistics in the total product costs is significantly higher in China than in western countries. According to a Fraunhofer IFF study commissioned by the EU, China's logistic costs make up roughly 17 percent of the GNP, whereas in Germany, they amount only to 7 percent. According to the study, transport and storage costs equal 30 to 40 percent of the total costs of industry goods. The percentage is even higher in foods, where up to 60 percent have to be calculated for transport and storage, and for some chemicals the percentage reaches 70 to 80 percent. Companies planning to include China in their global sourcing, as well as logistic service providers have to calculate these higher logistic costs into their calculations.

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and ensuring their quality – a crucial concern especially for the chemical and pharmaceutical industry.

Setting out to identify the optimization potential in Chinese logistics first requires to be aware of the fundamental differences between China and most western countries. These vast differences are due to infrastructural issues and, especially, a different mentality. In China, the term “logistics” traditionally only comprises transport and storage. Logistic standards have not been established yet, and there is a lack of service providers. IT systems for the planning and monitoring of supply chains are still the exception. On the other hand, international companies in China apply the same high standards and have the same requirements as for their operations in western Europe and the United States. The need of these companies for high-quality services, such as short-notice delivery of parts – within a few hours – consistent tracking and tracing, and an overall supply chain management, is as strongly developed as in western countries. However, this high service level is not even being fulfilled consistently in the country’s large economic centers.

Networking makes logistics more efficient

Airfreight from and to China has also benefited from China’s WTO membership, with annual growth rates in the 12 to 15 percent range. Airfreight expands parallel to the container traffic, because it offers timesavings that are crucial for a number of high-quality or delicate goods. The increased frequency of flight connections, both between the country’s economic centers, and China and Europe and the American continent allows keeping up with the upsurge of passengers. For passenger traffic and freight traffic, the same challenges apply: making the airport part of a powerful network and provide a densely knit logistic infrastructure around the airports. Both conditions have to be in place to provide efficient pre- or post-flight processes on the ground.

In this situation international players in China have a strong interest in creating dense and reliable networks. The number of European and Chinese companies cooperating in logistic projects is expanding. For instance, the German National Railways Deutsche Bahn supports the development of the Chinese high-speed transport network. International logistic specialists are opening offices in China in central locations such as Shanghai,

using them to prepare their market entry while working closely with their customers who are already active in China. Their Chinese offices serve the logistics companies as a bridgehead for the rapidly growing flow of products coming into Asia or leaving Asian countries as exports. Logistics companies have also begun to offer onsite services, such as stock-keeping and warehouse maintenance, loading and unloading or supplemental services at the production facilities of their customers in China. Industry associations and logistics consultants with a commitment in China, such as the Fraunhofer-Gesellschaft für Materialfluss und Logistik (IML) help companies networking in China by providing valuable contacts and contributing with their experience to the success of logistic projects. ■