



PBB GLOBAL LOGISTICS – WHITE PAPER

Trade and Logistics in China

Massive infrastructure investments bode well for international traders, but complexities still abound

Supply chains are increasingly complex now that companies have become more global in their operations. Nowhere has this been more apparent than in China. With a rapidly expanding economy, large infrastructure investments, and competitive operating and labour costs, China offers tremendous opportunities to North American traders.



But before companies take the leap, it is important to take a close look at logistics and trade needs. While trade in China can be extremely lucrative, proper attention must be given to the nuts and bolts of getting goods in and out of the country. A knowledgeable and experienced global logistics provider can serve as an invaluable guide through the complex business of trade in China.

Customs and Trade

When exporting to China, companies must ensure that the recipient holds a valid trading license. Only businesses with this license are allowed to import goods. Foreign companies have been restricted from holding a trading license in the past, although this is changing as a result of the concessions made when China joined the World Trade Organization (WTO). Unless your company has such a license, you must ensure that your Chinese business partner is a licensed importer.

If a company is importing goods from China, it is critical to verify the quality of the supplier. You must ensure that you are dealing with a reputable firm. If the product is coming from a new supplier, it is wise to employ an inspection company to check on the quality of the goods. Trade missions to China, either

government-run or privately-led by a reputable company experienced in China, can help establish contacts with reputable business partners or agents. The first step to a successful venture in China is meeting the right people.

Customs and trade procedures in China are complex. The country is made up of many provinces and districts, each having their own rules and regulations. However, Chinese

Customs has started slowly integrating seaports, airports and inland customs offices. The right documents need to be in place for each specific district, or the goods could be held up.

Tariff rates also require careful research. There have been several rounds of tariff cuts as a result of WTO, and rates continue to change. Companies trading with China need to identify which tariff category their goods fall under and if any exemptions or restrictions apply. China offers lower duty rates and exemptions in certain special economic zones, open cities (areas that have been given special treatment by the Chinese government in order to encourage economic growth) and foreign trade zones. Targeted growth industries, such as high technology, also offer

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lower tax rates. Companies operating in these areas should investigate duty rates applicable in different jurisdictions.

Companies that choose to make use of a third party logistics provider can overcome many of these trade hurdles, through trusted relationships with key trade regulators, economic development officials and government representatives. This type of connection is invaluable in China, where relationships are the key to credibility.

Logistics

Logistics in China is a growth industry and the state of the market is rapidly evolving. In many cases first class facilities exist, but the knowledge and capabilities needed to supply a seamless service have not yet been developed. Shippers need to be cautious - many Chinese companies claim to provide complete logistics services, while in reality very few are able to provide the level of service required by global companies.

By working with a third party logistics provider who has established relationships in China, traders can avoid many of the logistics headaches common in China. A good logistics partner will ensure that the necessary licenses are in place, that the partners are reliable and that the information technology systems, such as those used for tracking and tracing, are up-to-date. Look for a Western-based provider with a history of working in China – they are most likely to have solid trade networks within the Chinese marketplace. Moreover, they generally appreciate the importance of strong customer service and modern information systems, providing the scope and services to which foreign companies are accustomed.

For companies choosing not to use a third party logistics provider, another option is to use a Chinese sales agent to handle internal distribution and customer service. There are many agents in China and again, it is wise to ensure that the agent is qualified. Sourcing an agent requires the same due diligence that goes into sourcing a manufacturing supplier. If you do not currently have a network of Chinese government and business contacts to help refer a suitable agent to you, enlist the help of someone who does. PBB's Access China program is an example of a service that provides this type sourcing assistance, leveraging the company's 20 years of networking in the country.



In China, relationships are the key to credibility. Participation in trade missions (above) and economic development delegations are effective ways of building these relationships, as are personal introductions from existing networks and contacts who are already doing business in China.

Distribution

In China, getting the goods to or from China is fairly straightforward; it's getting the goods moving within the country that can offer some challenges. The first step in establishing a distribution presence is to choose the right location. Look at where your customers are located. Being close to customers will avoid long transportation times; being close to the seaports will be more expensive but offer better services and facilities. Generally, services in the major centers tend to be very well established; problems arise when shipping outside the major centers or when the goods are specialized.

Infrastructure in China has shown tremendous improvement in recent years. The road system is modern and extensive, and is an efficient way to transport finished goods. Short haul services run smoothly, but there is a growing need for fully serviced long haul transportation. Shipping long distances by road can be expensive and time consuming. As with Customs, there is no

Considering doing business in China?

- Understand the importance of personal relationships
- Visit your suppliers/customers on a regular basis, and extend invitations for them to visit you
- Partner with a logistics provider experienced in the Chinese market
- Do your customs homework before shipping to prevent delays
- Give utmost consideration to the best port of entry/exit, to avoid challenges of inland transportation and domestic air cargo

integration and each province has its own license and procedures. A good logistics partner can help plan transportation in a way that will avoid long travel delays and extra costs. Look for providers with full service operations in all of China's major trading centers, particularly the key gateways of Hong Kong, Beijing, Guangzhou, Xiamen, Fuzhou, Ningbo, Dalian, Shanghai, Tianjin and Qingdao.

Other inland transportation methods include rail, which is showing improvements as more investment is being made, and air. Domestic air cargo is extremely expensive and rarely used unless a shipment is time sensitive.

In terms of getting goods to China, ocean shipping is the most common method. The port system in China is well established, with good facilities at major ports. Many logistics providers offer regular consolidation services to and from China, a cost-effective way of handling shipments too small to warrant a full container load.

Once in China, warehouse space is plentiful and facilities are state-of-the-art. However, many Chinese service providers lack

the expertise and knowledge that most customers require. Information and tracking systems have yet to be fully implemented and there is little standardization or sharing of data. Fortunately the recent influx of North American providers into China is starting to transform its logistics industry, with state-of-the-art facilities, modern information systems and tracking services that are common to North America.

Know Before You Go

China is a lucrative market that offers many exciting opportunities to businesses willing to take the time to experience and learn about the Chinese culture and the idiosyncrasies involved in foreign trade. Mastering the supply chain and executing a proven China-specific logistics strategy is vitally important to success. A consultation with a third party logistics professional with experience and expertise in China is one of the first steps to take in developing these strategies. Taking advantage of programs and services offered by solutions providers such as PBB can help address the challenges that come with doing business in China.

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Fast-track your entry to the Chinese market

PBB's Access China program gives you immediate access to a network of partners and connections, developed over 20 years of doing business in China. Consult an Access China professional for advice on:

- Sourcing: making the right connections
- Professional services with expertise in China: market research, legal, insurance, translation
- Supply chain planning and logistics management
- Business travel
- Trade missions and other high-level events and delegations



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