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Shanghai's new "Brain" center

By Robert L. Wallack, AJOT (from Shanghai)

Shanghai's North Bund area is deemed the "Brain" center of international shipping, with the highest concentration of government and commercial shipping factors in China.

Hundreds of Hong Kong-based service providers established offices in Shanghai ahead of China's World Trade Organization (WTO) commitments to open the shipping and logistics industry on December 11, 2005. The new office buildings are backed by the central and local government policies for developing Shanghai's Hongkou district to support the Waigaoqiao and Yangshan port areas.

"It is the central government's policy to develop Shanghai into four major areas: international trade, finance, shipping (Hongkou) and commercial, for all of China," said Ken Hui, Fans Trans International, Ltd., in Shanghai. Eighty percent of Shanghai's shipping-related enterprises are headquartered in Hongkou district, such as freight forwarders, customs brokers and shipping companies (COSCO, Maersk, APL). There are many advantages to North Bund's central location in the Hongkou district.

In the past, shippers and service providers had to go to different places in Shanghai for customs, inspections and other intermediary services. Now, the Shipping Service Mansion contains many government offices such as Customs, Inspections, Ports, Maritime Bureau and the Shanghai Shipping Exchange for "one stop" service. The North Bund area will create material flow, funds flow, information flow and talent flow. The entire area of the North Bund, the Bund and Liujiazui Financial Zone form the "Golden Triangle" for finance and trade industry resources so that commercial costs will be lower for shipping enterprises.

Fans Trans, a Hong Kong-based logistics service provider, was one of the first to receive the Hong Kong Service Supplier (HKSS) certificate under the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA) in 2004. They partnered with Hongkou to assist other companies to become certified in Shanghai as wholly owned foreign enterprises. CEPA is a bilateral Free Trade Agreement between China and Hong Kong to reduce barriers to Hong Kong products and services to the Mainland market two years prior to China's commitments to foreign business under WTO.

Logistics, transport, and distribution are among the 26 service sectors China opened up to Hong Kong-registered companies. Hong Kong is still considered a foreign country in China and without CEPA, China only allowed representative offices without sales, or a joint venture with a local agent in China. "The Chinese government wants to support the Hong Kong government to help them improve their economy," said Hui

Sino Links International, Ltd. is the Fans Trans entity appointed by Hongkou as the "window agent" to assist applications by Hong Kong shipping enterprises for CEPA or WTO arrangements in China. CEPA certified Hong Kong agents benefit from the booming Shanghai market, the world's third largest source of cargo, and the headquarters of various shipping lines.

"An agent in Shanghai with legal status can promote and branch into other cities without re-registering again," said Hui.

CEPA has had further liberalization measures, which have had a great impact on China's logistics industry. Last year and this year, CEPA II, III and IV were introduced. CEPA III and IV, "Trade in Services" is effective January 1, 2007 whereby the Mainland will further relax the market access conditions to promote cooperation in customs clearance facilitation, commodity inspection and quarantine, food safety, quality and standardization, as well as electronic commerce among other areas in trade and investment facilitation. These liberalization measures will prove useful in harmonizing Customs procedures and commodity inspections that differ from city to city and region to region on the Mainland.

CEPA IV will liberalize air and road transport to allow Hong Kong air transport sales agencies to set up wholly-owned foreign enterprises (WOFE) air transport sales agencies in the Mainland. "Effective from December 11, 2006, the industry further opened to all foreign companies who can set up a WOFE in China, enjoying some entry requirements and scope of services as the local and CEPA companies. The only difference is that foreign companies can apply for a branch office in other cities only after one full year of operations, and they are not allowed to enjoy the open policy of CEPA IV which allows CEPA companies to apply for the Air Transport qualification license," said Hui.

No More Protection for Local Agents Nowadays

The Mainland government recognizes the poor efficiency of China's logistics industry and is, "In fact, inviting the overseas players to help to improve the efficiency and overall performance of freight service providers in China," said Hui. "There is no more protection to the local agents nowadays," he said. The impact of these changes on overseas companies and the local firms in China is remarkable. Hui finds that overseas companies are causing the separation of joint ventures, such as UPS buying all of the shares from their previous partner, Sinotrans. Many overseas companies made use of their Hong Kong branch office to apply for the license in China through CEPA, such as BAX Global, CH Robinson, CN rail and CMA Logistics, to name a few. Also, many overseas companies such as Yellow Freight and Kerry Logistics bought the local Chinese company as a way to enter the China market.

Close Relationships

Peace Bridge Brokerage (PBB) of Ontario, Canada is one global logistics provider that gains outbound and inbound access to the China market from its Fans Trans relationship.

In 1998, PBB and Fans Trans met in Hong Kong. In 2001 they signed an agency agreement that in 2003 extended to China shipments. According to PBB, "Fans Trans represents PBB through a network of strategically placed offices throughout China to

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satisfy import/export services to/from all major ocean ports, airports and inland ports which greatly assists PBB in our ability to access the China market."

Garments, toys, and general items by the hundreds of twenty foot equivalent unit containers (teus) per month are shipped from China for PBB by Fans Trans. These shipments are bound for North America. They travel by air and sea to the US West Coast, and on to the Midwest by rail. Seventy percent of the company's exports from China are destined for Canada. Fans Trans uses Hyundai, Mitsui and Canadian Maritime (CANMAR). Fans Trans has a growth rate of 15% per year over the past three years for all of its business from China.

The Hong Kong logistics partner's turnover is more than $12 million per year. A large portion of Fans Trans's business is garment shipments. Men's and women's clothing produced from all over China are flat packed in boxes or put on hangers and routed through Shanghai Ports by air or sea to North America, France and Spain. Final destinations are mail order companies in Canada, Armand Thiery in France, and Mango in Spain.

A Shanghai middle value clothing producer depends on Fans Trans for timely delivery to overseas markets. Steilmann, a German garment importer, orders a new fashion design fabric from the Shanghai manufacturer. The special fabric is requested from China where it is 30-50% less expensive than in Japan or South Korea.

Time to market by direct shipment without costly warehousing is very important for this customer, since many garments sell on the basis of the fabric. Styles go out of fashion quickly. Fans Trans must prevent any delays in the supply chain or the buyer pays a penalty by deducting one percent in value per late day from the order, or the shipper must pay for the higher cost of air freight, or the order may be canceled.

The Shanghai garment producer interviewed for this story can do everything for the customer except the design. The company receives an additional five percent profit over the less capable large volume, low cost (State Owned Enterprises) garment producers.

Customs is where Fans Trans is especially meticulous. In Shanghai, as little as 10 years ago, a discrepancy was resolved by paying cash to the customs officer. "Now, customs randomly checks by opening boxes, and makes sure the paperwork details are accurate. If not, then the shipment is held for supplemental documents and more details, especially for garment shipments," said Keith Cheung, Station Manager, Fans Trans (China), Ltd. in Shanghai.

Fans Trans and Peace Bridge Brokers form just one of hundreds of relationships in Shanghai's growing shipping service industry. "Fans Trans is not only PBB's exclusive agent in China for international freight forwarding, but also a very close partner who assists PBB in many additional lines of the logistics business," stated a PBB spokesperson.

The completion of the North Bund Brain Center is scheduled for a 2007 opening.