

China: Yesterday, Today and Tomorrow



By Wolfgang Lehmacher

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Over the last three decades, the relentless rise of China's export-driven economy has changed the face of world commerce. But China is now in flux as its economy transitions into a new stage of development, rendering the assumptions of yester-year obsolete. Tomorrow's China will be a very different place, creating new opportunities, with new risks for manufacturers, traders, banks as well as supply chain and other service providers.

CVA – Corporate Value Associates, a global strategy boutique, tracks critical trends in consumer and customer behaviour, companies, capital markets, infrastructure investment, government and social policy. CVA uses this information to help evaluate and forecast economic growth, and identify and capture opportunities by designing strategies and implementation plans that create value for companies around the globe.

Bruno Salle, Managing Director (Asia-Pacific) at CVA, believes the current slowing of GDP growth is part of a natural, needed rebalancing of China's economy. "China is moving from an economy where growth was overly reliant on investment and exports to one where internal, private consumption is becoming one of the key drivers of growth," he says. "This is a major structural transformation. Exports are - and will remain - an important contributor to China's economy. But the focus of growth is shifting from construction and manufacturing to more services, innovation and consumerism".

First and foremost, China's next stage of economic evolution will mean slower GDP growth rates. Reliance on exports and foreign investment will decline and the economy will be rebalanced to reflect the spiralling number of middle class consumers. These buyers will continue to grow in confidence and sophistication, driven by quality of living rather than just price. "The current slowdown isn't the end of Chinese growth," explains Salle. "It's the start of growth that is not primarily bound to exports and heavy industry. But this is a process still in its infancy and it is important it is viewed in this context. It will take some time until a clear picture of China emerges, but there are clear trends evident already."

Certainly, government policy makers are already leaving more and more decisions to the market. We also expect to see the rise of large private enterprises, the quality of suppliers of most products and services to broaden, and more determined steps taken to tackle corruption. The winning state-owned enterprises will need to learn to be more market driven as competition becomes increasingly fierce and government more transparent. Logistics value chains will largely be shaped by China's inland development, the embrace of e-commerce and evolving international trade flows, particularly on intra-Asia lanes as China's

trade with neighbouring emerging markets continues to grow. Together, these three trends will bolster the logistics and supply chain business in China.

China's relatively strong road, rail, air and communication networks, large and flexible labour force and manufacturing know-how, particularly in the area of mass production, will remain major draws for producers of all shades. But the high cost of land and rising cost of labour on the coast, allied to growing domestic demand, will accelerate the shift inland of non-premium manufacturing. "The government is promoting the development of middle and western China, so foreign investors will face diminishing preferential policies in coastal areas," expects Jian Lou, Partner (China) at CVA. "As businesses adapt to higher costs, new innovative business models will emerge." China will transfer best practices to hinterlands, take more control of its own production standards and make greater efforts to protect intellectual property rights. However, Chinese refinements of western researched, designed and manufactured products will remain a concern.

China's restructuring will have a major impact on logistics needs and demands. The market will, for example, become more specialised by industry sector and mode. Consolidation can also be expected, and logistics companies will be forced to continue expanding networks as markets move to Northern and Western China. The more balanced manufacturing landscape in China will bring more balanced flows and should therefore result in better capacity utilisation and lower costs for carriers, logistics companies, shippers, as well as buyers and consumers in China and worldwide. But extracting the full benefits and value of making this transition will require new skills and ways of operating transportation businesses and networks.

E-tailing is a standout Chinese success story. Massive investments in e-commerce businesses and IT has opened new markets beyond the tier one and two cities in China. E-commerce has also driven demand for Chinese products in other parts of the world, such as Russia and Brazil. This is creating vast new internal and international distribution requirements and is having a major impact on the logistics value chain. Backing up this success within China will require higher delivery standards and more efficiency. In international markets, e-commerce companies and logistics providers are facing major challenges in customs clearance and finding the appropriate delivery platform. These trade and business obstacles also need to be overcome. "The transfer and adaptation of best practises from the West will be as important as bridging the gap in business practises and culture between the different markets," says Lou. "Leveraging the knowledge of experts and companies experienced in this field will be critical to success."

The renminbi (RMB) is gradually being internationalised, paving the way for even more efficient commerce, particularly between Asian countries. Indeed, intra-Asian travel and trade is expected to prosper, not least as ASEAN member countries create a new free trade area from 2015. China will not only seek to bolster its regional influence, but look as well to emerging markets in Africa, South America and the Middle East, where it has already forged relationships through its huge consumption of commodities and investment in infrastructure. Logistics players focusing on intra-Asian flows and emerging markets will benefit from these developments.

A paradigm ‘thought’ shift in China among citizens and policy makers will be a key driver in a gradually growing embrace of environmentalism and Corporate Social Responsibility by individuals and State. This, in conjunction with the increasing enforcement of laws and operating standards, will impact the choice of equipment and the way logistics players operate. Companies need to be aware of all the trends and changes and need to assess the relevance of these developments for the future operating requirements and business plans.

All participants in the logistics value chain need to adjust to the changing landscape. The attractiveness of the logistics offer to shippers and supply chain customers is a function of all components of the logistics value chain, including information, security and inland transport to, for example, ports in respect of price, time and quality. Logistics companies will look for the optimal value proposition at river ports, seaports and airports and will go where they can make the best margins when serving their customers in an increasingly competitive market. While larger logistics players will act strategically to serve their more sophisticated buyers, smaller transportation and logistics companies will go wherever they get the best offers from brokers and consolidators.

Overall, increasing sophistication in the logistics value chain can be expected, which represents a major opportunity for those players which prepare best, and a major risk for those who do not. It will be a challenging journey for all participants and much of the path remains unclear. What is clear, however, is that companies wishing to win and grow in China need to deeply understand China’s international economic dependencies and interdependencies of internal markets, including government views and plans. For example, expanding business or moving production into China’s interior requires a deep knowledge of different cities, verticals, customers and competitors – local and foreign – if all options are to be properly assessed and the no regrets and best value option moves identified and successfully executed.

China will remain an opportunity to diversify business portfolios and overtake even larger competitors for companies which have the necessary insights. For those who do not, it will be a harsh proving ground.

“It might take time for China’s economic output to shift from growth in manufacturing and construction to economic growth built on services and innovation and domestic consumption,” says Salle. “What should be remembered is that China has been able to weather and overcome huge economic, social and political challenges and manage far reaching reforms throughout its history, including over the last three decades.” There is no reason to think it will not be able to do so again and again.

The Author



Wolfgang Lehmacher (born in 1960 in Bonn, Germany) is an international manager, entrepreneur, and expert in the field of transportation and logistics. He is a partner and managing director for China and India at the global strategy boutique CVA. He supports companies and institutions worldwide in strategic positioning and development.

Lehmacher began his career in 1980 with the German Red Cross, and then moved on to Kuehne & Nagel and ASG. Subsequently, he took on executive roles at TNT (1991-1999) and Groupe La Poste (1999-2010); he was also managing director at DPD (2003-2005). As president and CEO of GeoPost Intercontinental, he was responsible for the global expansion of the express parcel business of French La Poste.

Lehmacher was involved in significant developments in the transportation and logistics industry, including setting up GD Express Worldwide, a joint venture of five postal organisations (1991) in Germany, heading the German joint venture of Deutsche Post and TNT Express Worldwide (1994-1996), driving the expansion of TNT Express Worldwide in Eastern Europe and the Eastern Mediterranean region (1997-1999), the European expansion of the French La Poste (1999-2001), the integration of the parcel network DPD in the La Poste Group (2001-2005), and the worldwide expansion of the express parcel business of La Poste (2005-2010).

Lehmacher’s new book, **Wie Logistik unser Leben prägt: Der Wertbeitrag logistischer Lösungen für Wirtschaft und Gesellschaft** (“How Logistics Shapes Our Lives: The Added Value of Logistics Solutions for the Economy and Society”), was published in German by Springer Gabler at the end of August 2013.

Transport Intelligence’s Emerging Markets Logistics Conference

The **Emerging Markets Logistics Conference**, sponsored by Agility (Singapore: September 24-25, 2013) is just days away and will discuss the issues included in this article and many more. It will provide exclusive research, with each session led uniquely by an expert Ti analyst, combining insightful presentations with contributions from senior figures in the manufacturing, retailing, consulting and logistics industries. **Register your place before its too late by visiting www.ticonferences.com.**