Barriers to Global Trade
Through Marine Ports

Country Reports

University of Southern California
Marshall School of Business

Busan, Korea
November 15, 2005
China

- **Key Findings**
  - Measures in place to inspect containers since the early 1990s target duty—not security—concerns
  - Local, city, and provincial governments have significant influence on the flow of goods
  - Declaring export goods for the US markets through AMS has improved data efficiency within the supply chain
• **Barriers / Frictions**
  – 24 hours AMS rule, while beneficial to shippers, has resulted in less flexibility for manufacturers and freight forwarders
  – Elimination of the quota system in 2005 has been disruptive to the smooth flow of goods

• **Trends**
  – Strong government initiative help expand port capabilities and develop the inter-modal structure
  – MNCs are pushing the freight forwarders to extend themselves into the inter-modal system

• **Best Practices**
  – The Chinese government plays a central role in developing infrastructure to support the flow of goods
China

• **Barriers / Frictions**
  – 24 hours AMS rule, while beneficial to shippers, has resulted in less flexibility for manufacturers and freight forwarders
  – Elimination of the quota system in 2005 has been disruptive to the smooth flow of goods

• **Trends**
  – Strong government initiative help expand port capabilities and develop the inter-modal structure
  – MNCs are pushing the freight forwarders to extend themselves into the inter-modal system

• **Best Practices**
  – The Chinese government plays a central role in developing infrastructure to support the flow of goods
Key Findings

- 24 hour rule is exceedingly expensive for Japanese manufacturers, setting some back as much as 10 years in efficiency improvement efforts
- CTPAT has neither a positive nor negative effect on most businesses
- Growth of business in China affecting Japan in complex ways, primarily in the form of increased competition
- Ports could be optimized through around-the-clock operation, shortened delays, etc
- In general, US business practices are seen as somewhat short term and would benefit from a more relationship focused approach when doing business with Japanese companies
Key Findings

- 24 hour rule is exceedingly expensive for Japanese manufacturers, setting some back as much as 10 years in efficiency improvement efforts
- CTPAT has neither a positive nor negative effect on most businesses
- Growth of business in China affecting Japan in complex ways, primarily in the form of increased competition
- Ports could be optimized through around-the-clock operation, shortened delays, etc
- In general, US business practices are seen as somewhat short term and would benefit from a more relationship focused approach when doing business with Japanese companies
Japan

• **Barriers / Frictions**
  – 24 hr Rule/Less than around the clock operation of Ports
  – US companies’ 1 month grace period for payment despite frequent late deliveries
  – Empty containers/freighters on return trip to port of embarkation
  – Lack of security standardization in container yards

• **Trends**
  – Chinese currency controls putting pressure on Japanese manufacturers

• **Best Practices**
  – Customer Broker/Shipper informal rating system
  – Organized and detailed bookkeeping, information gathering, and use of IT helps facilitate trade
  – Geographic concentration of trade related companies near ports increases efficiency
Key Findings
- Security requirements are not an issue in Port of Busan
- 43% of cargo in Busan is transshipment (60% of that cargo is China bound)
- Use of RFID is in testing phase

Barriers / Frictions
- The ports of Busan are currently operating at overcapacity. New Port, set to complete in 2011, will more than double its capacity
- Information flow is not smooth due to various IT systems involved along the supply chain
Korea

- **Trends**
  - Threat of transshipment cargo business moving to new ports in China

- **Best Practices**
  - Port-MIS, a centralized IT system, provides efficient transfer of information between related parties at the port of Busan
  - Hutchison is the most efficient terminal operator in Busan
• **Key Findings**
  – Ports have recently experienced dramatic rise in volume but overall flow is still relatively small compared to other world ports
  – Inter-modal transportation is a bottleneck due to poor infrastructure but significant emphasis on improving the railroads to Texas is underway
  – Huge discrepancy exists between private and public companies, particularly with technology sophistication
  – Bureaucracy is still a major concern and many transactions are influenced by relationships
• **Key Findings**
  - Ports have recently experienced dramatic rise in volume but overall flow is still relatively small compared to other world ports.
  - Inter-modal transportation is a bottleneck due to poor infrastructure but significant emphasis on improving the railroads to Texas is underway.
  - Huge discrepancy exists between private and public companies, particularly with technology sophistication.
  - Bureaucracy is still a major concern and many transactions are influenced by relationships.
Mexico

• **Barriers / Frictions**
  - Ports and inter-modal transportation are bottlenecks to flow of goods
  - Bureaucracy and conflicts of interest e.g. between customs and shipping companies due to variety of regulations cause information barriers
  - Security barriers such as 50 mile trucking rule, crime/corruption
• **Trends**
  – Increased manufacturing in Mexico
  – Open economy leading to foreign competition

• **Best Practices**
  – Some private companies have IT systems that allow information to be sent directly into the customs database
  – Port operator has efficient turn around times by getting trucks in and out of their yard within 10 minutes
Peru

- **Key Findings**
  - Modernization of the Port is critical to the economy of Peru
  - No coordination between government and stakeholders to minimize transaction costs, set regulations or make decisions related to the port
  - Drugs and contraband are the main security threats
  - Customs is viewed as a collection agency rather than a trade facilitator
• **Barriers / Frictions**
  – There is no cranes at the port so ships must have their own crane
  – Lack of equipment to efficiently move goods within and out of the port
  – Inconsistent or lack of IT programs delays the flow of information

• **Trends**
  – Privatization of port, increase concessions within the port
  – Consolidation of shipping companies, with the 10 largest shipping companies control 60% of the market
• **Key Findings**
  
  – The governmental, regulatory and operating authorities of Singapore work collaboratively to ensure an extremely efficient port
  
  – Singapore has been at the forefront of technology, enabling it to consistently improve port efficiencies and meet the challenges of changing regulatory environment.
  
  – Capacity constraints and deficient intermodal infrastructure at the US West Coast ports leads to increased costs at all points along the containerized supply chain
Singapore

• **Barriers / Frictions**
  – Multiple user interfaces to intermediary IT systems further burden business users
  – Ever evolving trade regulations require additional resources to ensure compliance
  – Capacity constraints and congestion at ports in other countries have a trickle down effect on Singapore

• **Trends**
  – Expansion of port facilities to facilitate increase in future cargo flows
  – Proactive role in helping shape international regulations and testing emerging technologies
Best Practices

- Centralized IT system, TradeNet allows efficient transfer of information between related parties
- Locating port related facilities in close proximity to the port reduces inter-modal costs
- Advanced IT systems maintain real-time knowledge of all containers in stacked container yards
- Upgrading to advanced heavy equipment and port technologies to improve port efficiencies
Key Findings

- Already fully utilizing the space at ports. Port expansion plans are unlikely due to pollution concern
- There is a system-wide (truck, rail & port access) capacity issue
- Powerful labor union (ILWU) have significant influence on future plans and changes at the ports
• Barriers / Frictions
  – Inland inter-modal facilities are not correspondingly developed
  – Port employees know technology could reduce jobs and are reluctant to apply technology
  – Lack of consistent regulation and awareness of these regulations among economies impede movement of goods
  – 24-hour rule impacts manufacturers both through process information flow and the physical flow of goods
  – Increase in random container checks cause greater delay due to personnel issues
USA

- **Trends**
  - Ocean carriers plan to transfer some business to other ports (Seattle, Houston, Vancouver, North Mexico) to avoid the congestion at ports of Los Angeles and Long Beach
  - Standardize rules and regulations among Canada, Mexico, and US to allow more efficient flow of goods
  - GPS and RFID usage in container tracking will increase.
  - Technology will help utilize space better and identify exactly where goods are (container management)
  - Surprisingly, the USA is not pursuing strategies to deploy technology to scan of every container

- **Best Practices**
  - CSI (Customs Security Initiative) and Customs Trade Partnership Against Terrorism (CT-PAT) deployed successfully with trading partners
• **Trends**
  – Ocean carriers plan to transfer some business to other ports (Seattle, Houston, Vancouver, North Mexico) to avoid the congestion at ports of Los Angeles and Long Beach
  – Standardize rules and regulations among Canada, Mexico, and US to allow more efficient flow of goods
  – GPS and RFID usage in container tracking will increase.
  – Technology will help utilize space better and identify exactly where goods are (container management)
  – Surprisingly, the USA is not pursuing strategies to deploy technology to scan of every container

• **Best Practices**
  – CSI (Customs Security Initiative) and Customs Trade Partnership Against Terrorism (CT-PAT) deployed successfully with trading partners