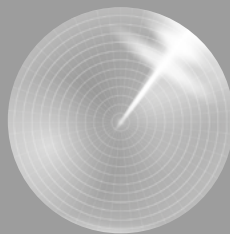


# DEMYSTIFYING ASIA PACIFIC TRADE TRENDS

A DHL Perspective on Implications for Supply Chains

May 2016



Asia Pacific Insights  
Powered by DHL Trend Research

## ABOUT THE PAPER

In the current fragile global macroeconomic environment, the Asia Pacific region, hereafter APAC, remains a region of optimism. It is positioned to be the world's fastest growing region, with GDP growth in 2017 estimated at 6% compared to 1.7% in the EU and 1.6% in Latin America.<sup>1</sup> How could the relative importance of this region change and what are the key trends and challenges in APAC markets? What can businesses expect to see in a few years and how may this impact supply chains in the region?

This paper seeks to demystify the trade trends and implications in a complex economic region that, until now, has seemed inconsistent and changeable. It provides a succinct summary of the trends and challenges in APAC markets and their implications for the supply chain. Findings are based on a synthesis of desk research, in-depth interviews, and a research survey of 56 companies in the region, conducted jointly by DHL and IDC.

## PUBLISHER

DHL Customer Solutions & Innovation  
Represented by Matthias Heutger  
Senior Vice President  
Strategy, Marketing & Innovation

## PROJECT DIRECTOR

Pang Mei Yee  
Vice President, Innovation, Solution Delivery &  
Service Management, Asia Pacific

## IN COOPERATION WITH:



## PROJECT MANAGEMENT AND EDITORIAL OFFICE

Tamanna Dahiya, DHL Asia Pacific Innovation Center  
Keya Chaturvedi, DHL Asia Pacific Innovation Center

## ACKNOWLEDGEMENTS

### Professor Deborah Elms

Executive Director, Asian Trade Centre

### Mr Alfred Goh

Senior Vice President, Global Head,  
Fast Growing Enterprises (FGE), DHL

### Mr Lee Eng Keat

Director, Natural Resources & Logistics,  
Singapore Economic Development Board

### Mr Malcolm Monteiro

CEO Asia Pacific, DHL eCommerce

## DHL Public Policy and Business Experts

## DHL-IDC Manufacturing Insights Survey Participants

## DHL Fast Growing Enterprises Shanghai Business Forum Participants

## DHL Asia Pacific Innovation Center (APIC) Visitors from Businesses & Government Agencies

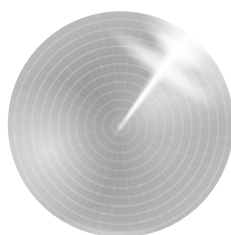
<sup>1</sup> World Economic Outlook, IMF, 2016



# DEMYSTIFYING ASIA PACIFIC TRADE TRENDS

**A DHL Perspective on Implications for Supply Chains**

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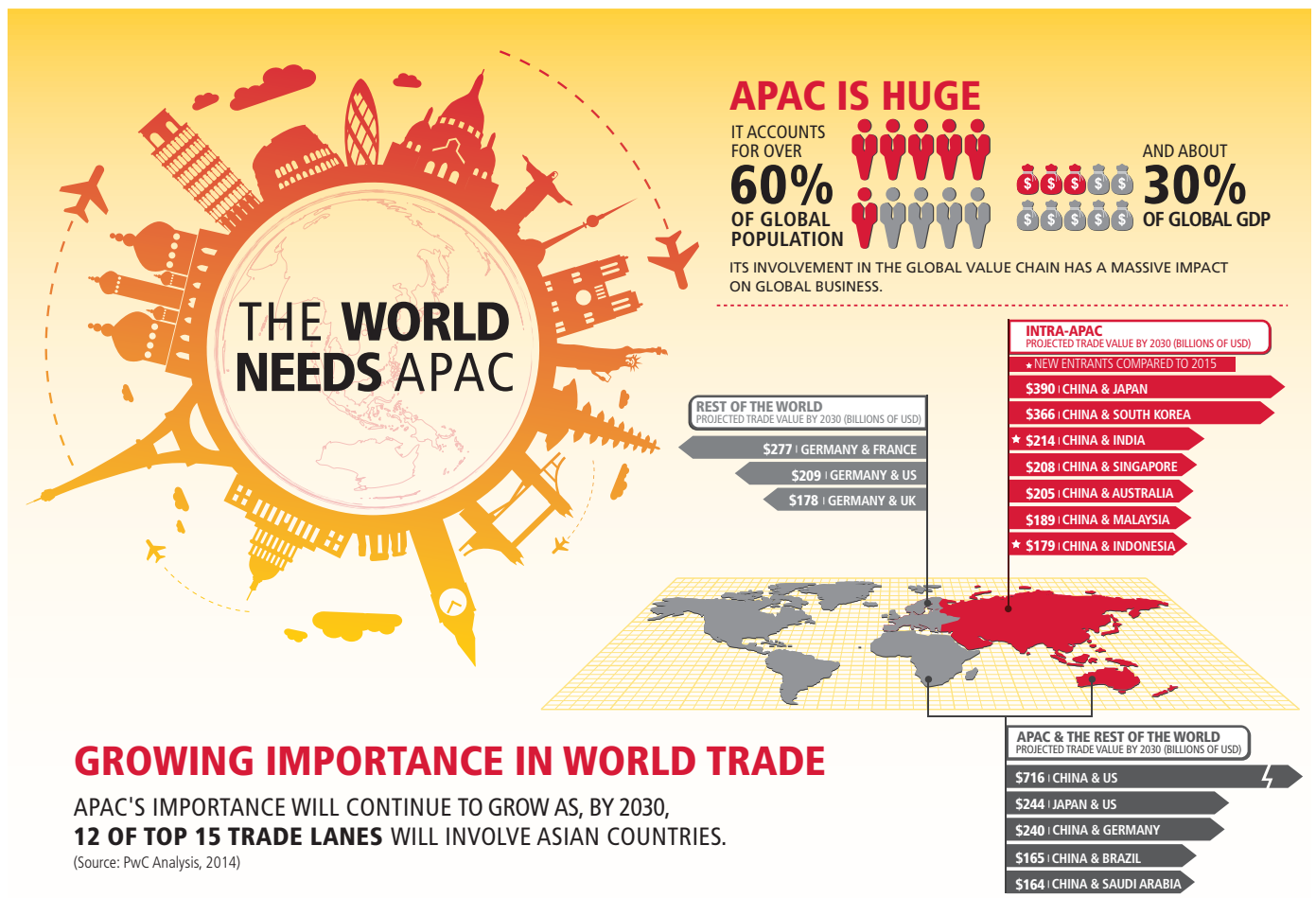
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# SECTION 1: EXECUTIVE SUMMARY

## 1.1 Asia-Pacific Trade Trends

APAC's importance in global trade is growing and will continue to grow. **Intra-APAC trade is projected to account for approximately 50% of key global trade lanes by 2030.** Strong export growth is anticipated with China, India, and Vietnam projected to lead **merchandise exports growth** globally between now and 2030. To exploit this increase in **regional movement of goods**, companies must get more involved in regional value chains and markets.



### GROWING IMPORTANCE IN WORLD TRADE

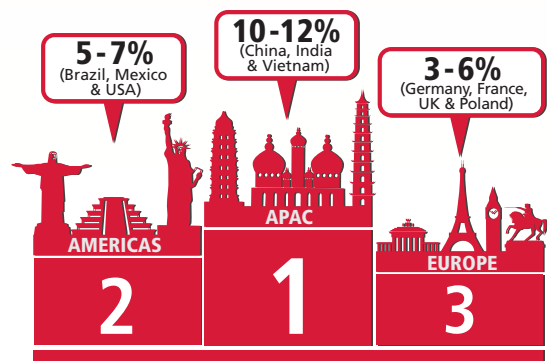
APAC'S IMPORTANCE WILL CONTINUE TO GROW AS, BY 2030, **12 OF TOP 15 TRADE LANES WILL INVOLVE ASIAN COUNTRIES.**

(Source: PwC Analysis, 2014)

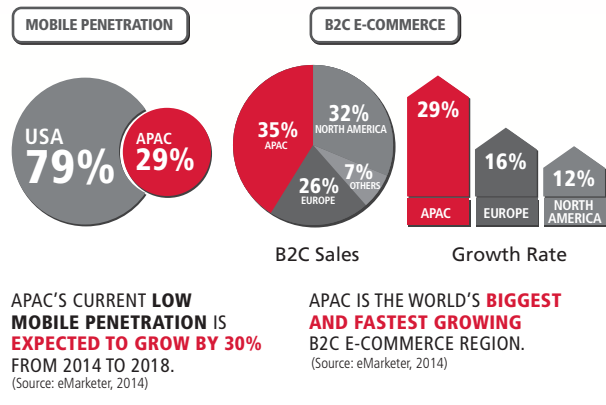
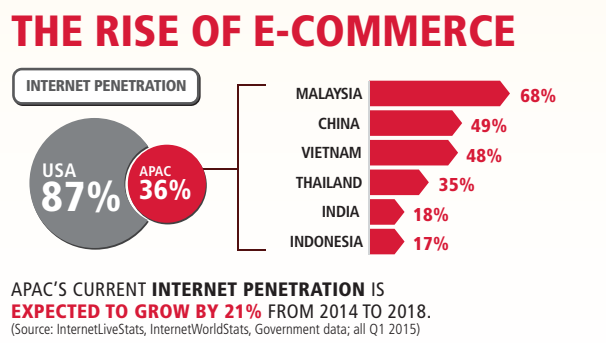
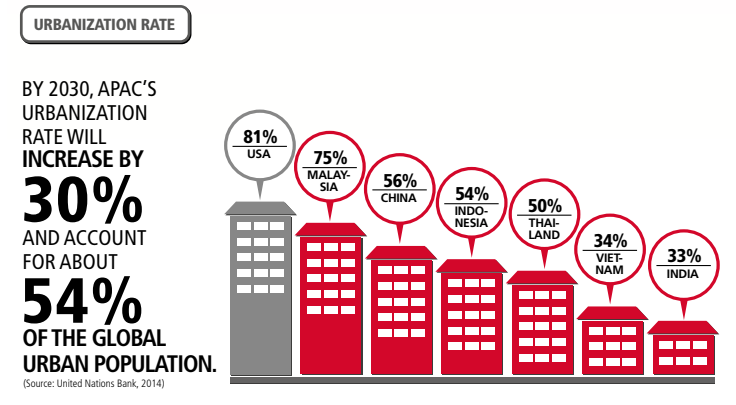
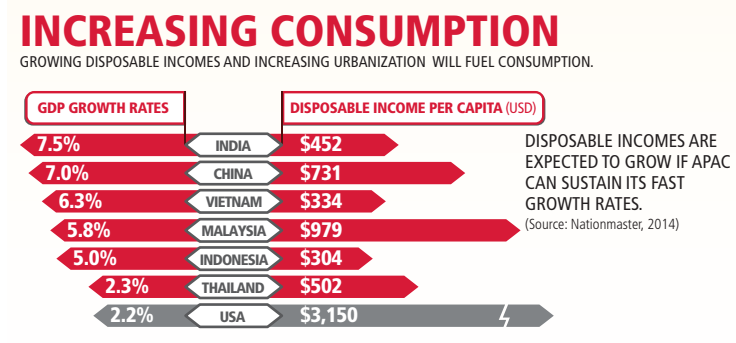
### KEY GROWTH COUNTRIES

CHINA, INDIA AND VIETNAM ARE **EXPECTED TO HAVE THE HIGHEST GROWTH IN MERCHANDISE EXPORTS** FROM 2015 TO 2030.

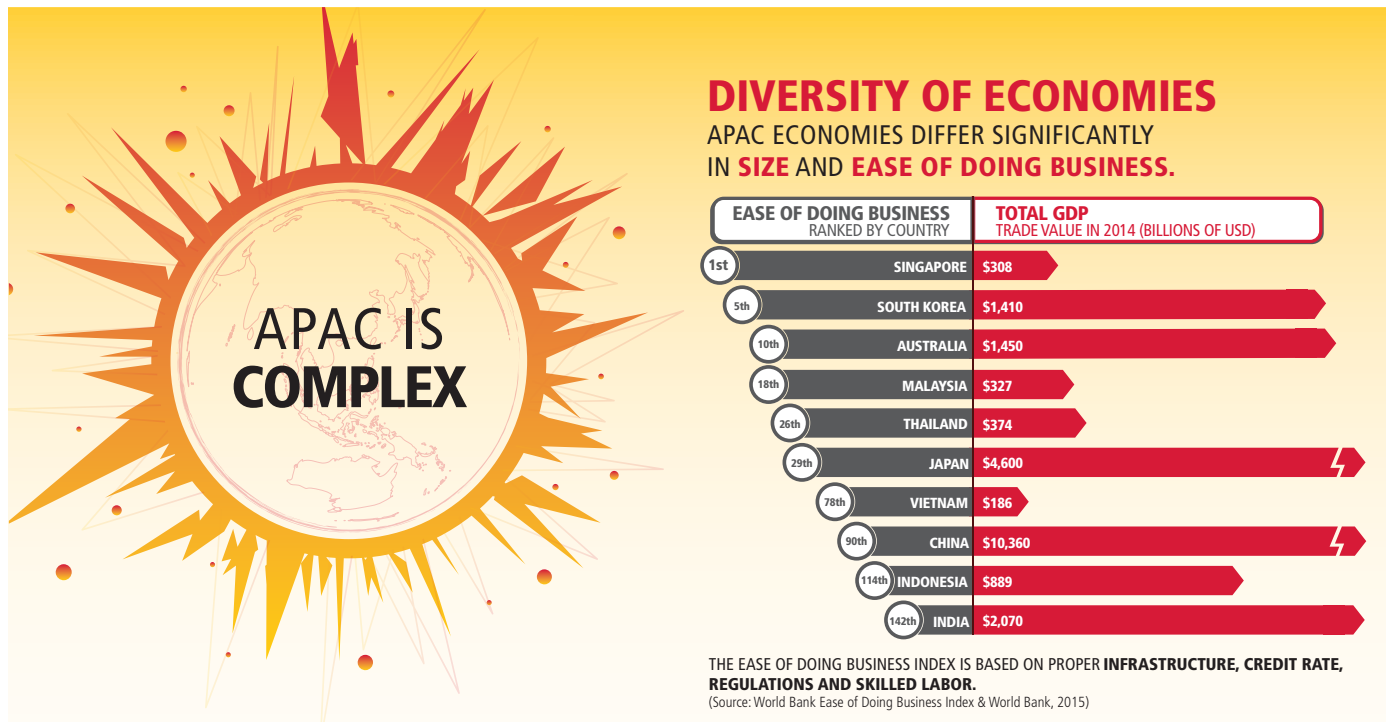
(Source: HSBC Global Trade Forecast, 2014)



Emerging **manufacturing hubs**, increasing **domestic consumption**, and **rapidly growing e-commerce** are key drivers of APAC's strong growth potential. China remains the world's undisputed manufacturing hub, even as some companies are diversifying operations to neighboring emerging markets (such as India or Vietnam). They are adopting the so-called "Plus One" strategy because of increasing labor costs, the growing need for resilience, and strong potential in these markets. APAC is **now the world's largest and fastest growing business-to-consumer (B2C) e-commerce market**, driven by increasing consumption and urbanization. Companies must redraw their manufacturing strategies and seize opportunities in emerging markets.



While opportunities are abundant, APAC is a complex region. Countries with high potential rank lower on the World Bank's Ease of Doing Business index. Poor infrastructure and complexity in regulations and customs cause inefficiency and add cost to supply chains. Governments are addressing these issues through infrastructure and trade policy initiatives. By leveraging these initiatives, companies can exploit better connectivity and service levels to make gains in APAC markets.

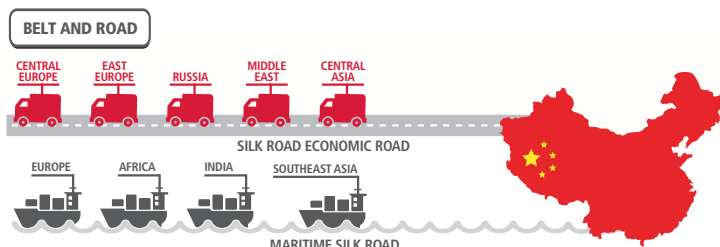


## KEY CHALLENGES

- LACK OF SUPPLY CHAIN INFRASTRUCTURE**
  - Delivery from Singapore to Indonesia can take up to 6 weeks
- CHANGING OR UNCLEAR REGULATIONS**
  - In the last five years, numerous trade "harmful" measures have been implemented in India (350), China (160) and Indonesia (140)
- COMPLEX CUSTOMS**
  - APAC has more than 50 countries with no unified customs processes

(Source: DHL-IDC Manufacturing Insights Survey, 2015)

## BRIDGING THE GAP THROUGH TRADE FACILITATION INITIATIVES



**AWARENESS**

WHILE MANY COMPANIES ARE AWARE THAT THESE INITIATIVES EXIST, MOST DO NOT KNOW HOW TO LEVERAGE THEM.

(Source: DHL-IDC Manufacturing Insights Survey, 2015)

45% 73% 94% 61%

**ASEAN ECONOMIC COMMUNITY (AEC)**

TRADE FACILITATION INITIATIVES SUCH AS THE BELT AND ROAD, AND THE ASEAN ECONOMIC COMMUNITY BOOST REGIONAL ECONOMIC INTEGRATION ACROSS MEMBER NATIONS.

BRUNEI DARUSSALAM CAMBODIA INDONESIA LAOS MALAYSIA MYANMAR PHILIPPINES SINGAPORE THAILAND VIETNAM


**LEGEND:**

- BELT AND ROAD
- ASEAN ECONOMIC COMMUNITY

"I'M AWARE OF THE INITIATIVE"




"I DON'T KNOW HOW TO LEVERAGE OPPORTUNITIES"

APAC consumers are a new generation of young, tech-savvy individuals who are inspiring innovative products and services. They demand the convenience of shopping online or offline. To meet these expectations, companies must adopt an **omni-channel strategy** supporting front-end operations (marketing and merchandising) as well as back-end logistics. Cross-border e-commerce infrastructure will be a critical growth enabler in the region.



**RETHINKING  
APAC**

### TOP 3 GROWTH DRIVERS

-  **CUSTOMER LOYALTY**
-  **PRODUCTS / SERVICES INNOVATION**
-  **ADOPTING NEW SALES CHANNELS**

(Source: DHL-IDC Survey, 2015)

### CHANGING CHANNEL MIX


| Channel                                   | Current Channel Mix (Based on Sales Channel Distribution) | Expected Growth Rate (Based on Survey Respondents) |
|---|---|--|
| Retail Stores                             | 33%   | 13%  |
| Distributors                              | 22%   | 11%  |
| Multi-channel Retailers (e.g. Walmart)    | 14%   | 18%  |
| Online Marketplaces (e.g. Alibaba)        | 14%   | 24%  |
| Independent Online Stores                 | 10%   | 23%  |
| Multibrand Online Retailers (e.g. Zalora) | 7%  | 11%  |

(Source: DHL-IDC Manufacturing Insights Survey, 2015)

### OMNI-CHANNEL STRATEGY

THE CHANGING PURCHASING BEHAVIOR AND CHANNEL MIX REQUIRE AN OMNI-CHANNEL STRATEGY.


**CURRENT STATE**



CHANNELS OPERATE INDIVIDUALLY

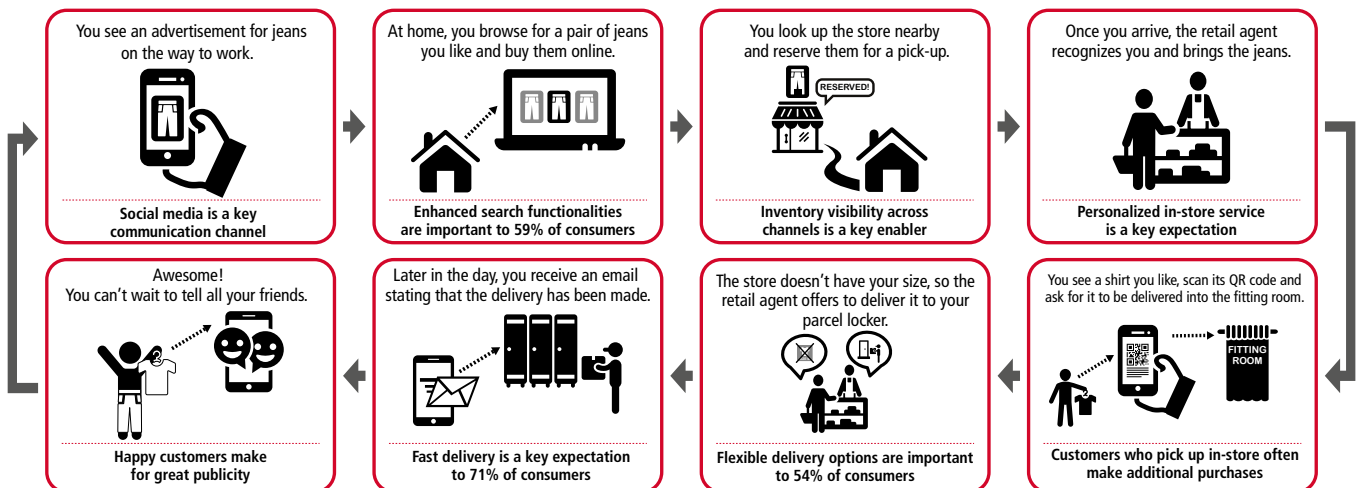
➔

**VISION**



CHANNELS OPERATE SEAMLESSLY

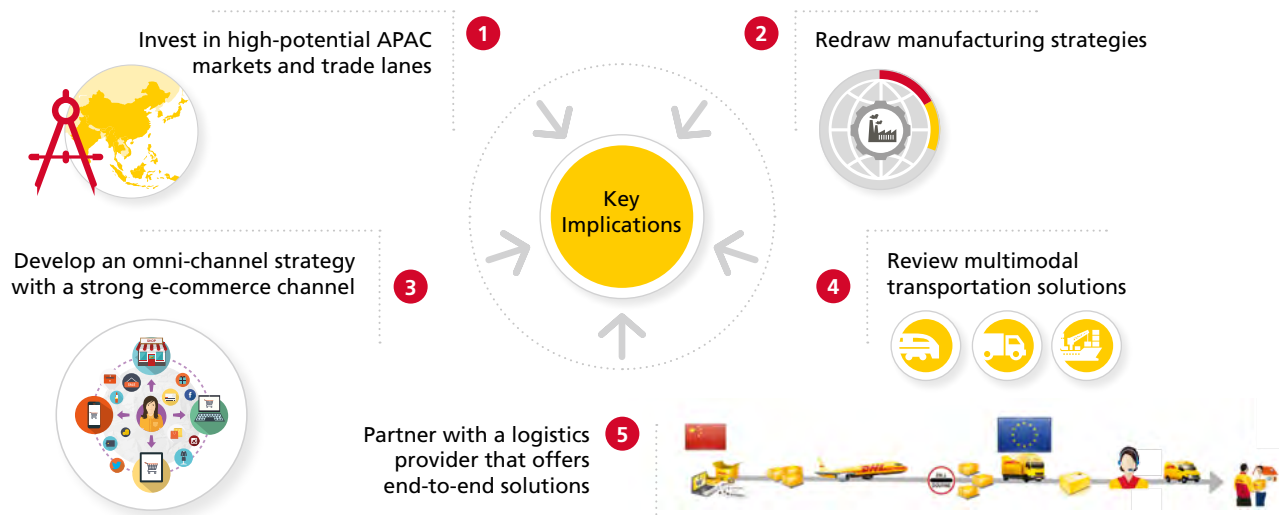
## THE MODERN CONSUMER'S JOURNEY





## 1.2 Implications for Supply Chains

### KEY IMPLICATIONS FOR SUPPLY CHAINS



#### 1. Invest in high-potential APAC markets and trade lanes

- Companies will need to invest in developing talent and improving supply chain facilities and connectivity, especially for the following markets and trade lanes:
  - **The Asian 6** markets (China, India, Vietnam, Thailand, Indonesia, and Malaysia) due to their growth profile and potential (Section 2)
  - **China-India** and **China-Indonesia** trade lanes as both are expected to enter the top 15 global trade lanes by 2030<sup>2</sup> (Section 2, page 9)

#### 2. Redraw manufacturing strategies with trade incentives in mind

- China is and will remain a key manufacturing hub in the region. However, more and more companies are adopting the **Plus One manufacturing strategy** (Section 1, page 4) to cut labor costs, diversify risk, and access new markets. The region offers lucrative manufacturing opportunities close to consumers, and companies are incentivized by high consumer demand. Organizations that have recently adopted this strategy, to varying extents, include Intel, Samsung, Nike, Foxconn, and Canon.

- APAC emerging economies are positioning themselves as **manufacturing hubs**. For example, **Vietnam** is moving up the value chain to attract more high-tech investment with companies such as Intel, Samsung, LG, and Panasonic establishing manufacturing plants. In **India**, the “Make in India” initiative is reviving the manufacturing sector in automobiles, high-tech goods, and pharmaceuticals. **Indonesia** is emerging as an automotive, high-tech goods, and rubber manufacturing hub. **Thailand** has been growing as a manufacturing hub for motor vehicles and components in the Association of Southeast Asian Nations (ASEAN) region.

- Trade initiatives such as the **Trans-Pacific Partnership (TPP)** make APAC countries even more attractive as manufacturing bases, especially Vietnam. The TPP brings the region closer to large developed markets such as the US, eliminating duties on up to 90% of products traded within the member states. Companies must understand these initiatives and adjust supply chains to leverage them if they are to thrive, particularly in a harsh or slow-growth economic environment (Section 3, page 17).

<sup>2</sup> Future of World Trade, PwC, 2011, [https://www.pwc.de/de/transport-und-logistik/assets/future\\_of\\_world\\_trade-final\\_160311.pdf](https://www.pwc.de/de/transport-und-logistik/assets/future_of_world_trade-final_160311.pdf)

### 3. Develop an omni-channel strategy with a strong e-commerce channel

- E-commerce is a significant channel and growth opportunity in the APAC region. Total online retail revenues in Australia, China, India, Japan, and South Korea are estimated to double from \$733 billion in 2015 to \$1.4 trillion by 2020.<sup>3</sup> E-commerce in China, the largest market in the world, continues to grow even as the Chinese economy slows down. **India's** e-commerce turnover, currently as big as that of South Korea and Australia, is projected to grow more than fivefold by 2020<sup>4</sup> (Section 2, page 11). Therefore, **adopting new sales channels is a key business priority in the region.**
- The growth of e-commerce is also impacting the modern consumer's shopping behavior. Each individual's shopping journey is highly personalized and moves seamlessly across different channels. 71% of APAC shoppers who own mobile phones use their devices in-store to review product information before a purchase.<sup>5</sup> **An omni-channel approach is the only way for businesses to successfully serve the needs of the modern consumer.** This fuels innovations in products and services and omni-channel supply chains. Cross-channel customer experience, access to alternative last-mile solutions, mobile wallets, and cash-on-delivery solutions are innovations that bring greater convenience to shoppers (Section 2, page 12).
- The rise of e-commerce has enabled consumers and SMEs to reach across borders to access new markets, leading to increasing cross-border trade. Governments need to enable this **cross-border e-commerce trade via suitable platforms such as the one recently piloted in China** (Section 2, page 14). **Collaboration will be essential** – businesses, governments, and logistics providers must work together to agree on platforms and models that boost trade while also protecting the rights of consumers and businesses.

### 4. Review multimodal transportation solutions for your supply chain

- **In the next 5-10 years, connectivity in the region may look different.** An Asian Development Bank study estimates the **potential benefit of reducing transportation costs is in the range of \$89 billion to \$358 billion<sup>6</sup>**, through proposed infrastructure connectivity projects in South and Southeast Asia (Section 3, page 20). This indicates there are significant opportunities to cut inefficiencies and costs in the supply chain.
- A direct outcome of improving connectivity will be the expansion of multimodal transport options in the region. Companies can access alternative methods for more cost-effective movement of goods vis-à-vis air transport and more time-efficient transportation vis-à-vis ocean (Section 3, page 23). Businesses can look forward to reduced costs and transit times and better transportation quality by leveraging multimodal solutions.

### 5. Partner with strong logistics providers that offer end-to-end solutions with strong APAC penetration

- Improved transport options and lower barriers to intra-regional trade will allow businesses to **adopt new regional strategies, delivering better service levels at lower costs.** A regional strategy not only creates a shorter supply chain to demand points, it also helps to enable an agile network to deal with changes in regulatory requirements, economies, and demand while controlling quality and compliance.
- Businesses should anticipate more **end-to-end solutions** from logistics providers to simplify processes, optimize cost, and increase control (Section 2, page 15). Standardizing performance management of multiple providers across a global supply chain is a start to creating a more resilient, flexible supply chain. Logistics executives can also expect their logistics partners to advise on trade agreements, accessing trade incentives, and complying with all relevant regulations and policies as part of the overall process of designing the supply chain (Section 3, page 24).

<sup>3</sup> <https://www.forrester.com/Asia+Pacific+eCommerce+Market+To+Reach+US14+Trillion+In+2020/-/E-PRE8924>

<sup>4</sup> <http://www.zdnet.com/article/indias-ecommerce-segment-to-increase-fivefold-by-2020-assochem/>

<sup>5</sup> IDC Retail Insights Global Shopper Survey, 2015

<sup>6</sup> Regional Transport Infrastructure: Mapping Projects to Bridge South Asia and Southeast Asia, ADB (2015), <http://www.adb.org/publications/regional-transport-infrastructure-mapping-projects>

## SECTION 2: DEEP DIVE INTO ASIA-PACIFIC'S TRADE POTENTIAL

### 2.1 Trade Potential and Investments

APAC's importance in world trade will continue to grow, and intra-APAC trade lanes are estimated to represent around half of all key global trade lanes by 2030.<sup>7</sup> Companies need to understand these lanes, particularly the two with the highest potential:

- **China-India:** Projected as a key trade lane for APAC, **China-India's trade basket will have a strong focus on electronics.** India's exports to China will feature textiles and consumer goods with an emerging focus on pharmaceutical exports. China's exports to India will continue to feature retail goods and electronics, with leading Chinese companies (including Huawei, Lenovo, and Xiaomi) taking the initiative to expand in India over the next three years.<sup>8</sup>
- **China-Indonesia:** Trade links between **China and South-east Asia will intensify, especially with Indonesia and Malaysia.**<sup>9</sup> China will export more value-added goods to Indonesia, focusing on consumer goods. Indonesia is likely to export commodity goods (such as coal, rubber, and palm oil) to China.<sup>10</sup>

Trade growth in APAC has been driven largely by China's manufacturing sector. However, as previously noted (page 7), many companies are adopting a Plus One strategy. Major technology companies have opened manufacturing plants in Vietnam<sup>11</sup> over the past few years, prompted not just by a cheaper workforce but also favorable tax breaks. By 2015, Samsung was manufacturing 50% of its phones in Vietnam, and is currently increasing production capacity to 270 million units per year. In addition, the company is looking to shift nearly 30% of its China production capacity (currently 150 million units per year) to other APAC markets including India and Indonesia.<sup>12</sup>



Aside from electronics, **apparel exports** are important in APAC. Vietnam anticipates continued export growth in apparel following the country's recent wave of deregulation and liberalization.<sup>13</sup> Added to this, there are growing apparel hubs in Indonesia, Cambodia, and Bangladesh.

APAC countries have undertaken specific policy initiatives to **boost economic growth and encourage global connectivity** via infrastructure investments, tax reforms, and tax incentives. Figure 1 highlights a few specific policies and investments in the **Asian 6** countries.

<sup>7</sup> Future of World Trade, PwC, 2011, [https://www.pwc.de/de/transport-und-logistik/assets/future\\_of\\_world\\_trade-final\\_160311.pdf](https://www.pwc.de/de/transport-und-logistik/assets/future_of_world_trade-final_160311.pdf)

<sup>8</sup> <http://venturebeat.com/2015/07/15/huawei-gets-green-light-to-manufacture-smartphones-in-india/>

<sup>9</sup> Future of World Trade, PwC, 2011, [https://www.pwc.de/de/transport-und-logistik/assets/future\\_of\\_world\\_trade-final\\_160311.pdf](https://www.pwc.de/de/transport-und-logistik/assets/future_of_world_trade-final_160311.pdf)

<sup>10</sup> <http://www.thejakartapost.com/news/2015/06/01/indonesian-exports-a-predicament-china.html>

<sup>11</sup> <http://www.bbc.com/news/technology-29985467>

<sup>12</sup> <http://www.businesskorea.co.kr/english/news/industry/8785-samsung-made-vietnam-50-samsung-mobile-phones-made-vietnam>

<sup>13</sup> <http://www.afr.com/news/world/asia/vietnam-bets-wave-of-industry-deregulation-will-bring-investment-20150622-ghumk0>

## INITIATIVES AND INVESTMENTS IN THE ASIAN 6 ECONOMIES

| CHINA   | INDIA  | VIETNAM  | THAILAND  | INDONESIA   | MALAYSIA  |
|---|--|--|---|---|---|
| <p><b>Made in China 2025:</b> aims to accelerate the innovative development of the manufacturing industry and the transformation of China from a big manufacturing power to a strong manufacturing power. Focus areas, to name a few, are automated machine tools, robotics, advanced information technology, biopharma, and advanced medical products.</p> <p><b>Internet Plus Strategy:</b> aims to integrate the Internet and industry while encouraging entrepreneurship and innovation. The strategy is also focused on e-commerce growth, specifically looking to expand e-commerce in rural areas to stimulate consumption and support the economy<sup>14</sup>.</p> <p><b>Hangzhou E-commerce Pilot Zone:</b> aims to set standards for procedures and supervision of e-commerce transactions, payments, logistics, customs clearance, tax refunds, and exchange settlements.</p> | <p><b>Make in India:</b> focuses on 25 manufacturing sectors, aiming to drive job creation, increase GDP and attract investment. Make In India offers capital subsidy (25% up to 10 years) to promote manufacturing, incentives for operations set up in SEZs, and investment allowance for capital goods (15% of investments &gt; \$417 million in plants/machinery)<sup>15</sup>.</p> <p><b>SEZs (Special Economic Zones):</b> to promote exports of goods and services, drive investment and develop infrastructure facilities. To attract foreign investment, SEZs offer incentives such as duty free import, phased-out 100% income tax exemption on export income, etc<sup>16</sup>.</p> <p><b>Infrastructure Investment:</b> plans for \$158 billion investment in highways and shipping sectors by 2019.</p> | <p><b>Easing of Regulation:</b> in 2015, the government loosened regulation across 100 areas. Tax incentives are also granted based on encouraged sectors (e.g., high technology, apparel, infrastructural development) and location (SEZs)<sup>17</sup>.</p> <p><b>Infrastructure investment:</b> an estimated \$200 billion in new roads, bridges, ports, water sanitation, power, and other infrastructure.</p> <p><b>Public-Private Partnership (PPP)</b> models are promoted by the government, encouraging more private companies to invest in infrastructure development.</p> | <p><b>Infrastructure Investment:</b> an investment program worth nearly \$75 billion to enhance connectivity with ASEAN neighbors, boost trade, lower transportation costs, and reduce existing bottlenecks.</p> <p>The government plans to develop and strengthen the trade corridors linking Cambodia, Vietnam, Laos, Myanmar, and China.</p> | <p><b>Tax Incentives:</b> in 2015, the government offered tax breaks to firms which export at least 30% of their production to encourage shipments of manufactured goods. This also includes tax incentives for multinational firms which re-invest their profits locally.</p> <p>Since 2015, the government has released several economic stimulus packages to boost growth and improve the investment climate. In 2016, the government released the 11<sup>th</sup> economic stimulus package focusing on harmonization of customs checks at ports, amongst other areas<sup>18</sup>.</p> <p><b>Maritime Axis:</b> to enhance Inter-Island connectivity by building 24 seaports and deep sea ports as well as upgrading port infrastructure in the next five years.</p> | <p><b>Tax Incentives<sup>19</sup>:</b> announced new tax incentives in 2015 for 4 segments: less developed areas, industrial area management, capital allowance to increase automation in labor-intensive industries, and the establishment of principal hubs.</p> <p>This increases incentives for companies to relocate operations in the country as well as to accelerate a shift towards high value-added manufacturing, and knowledge-intensive and innovation-based industries.</p> |

Figure 1; Source: DHL-IDC Manufacturing Insights, 2015

<sup>14</sup> [http://english.gov.cn/policies/latest\\_releases/2015/07/04/content\\_281475140165588.htm](http://english.gov.cn/policies/latest_releases/2015/07/04/content_281475140165588.htm)

<sup>15</sup> <http://www.makeinindia.com/article/-/v/direct-foreign-investment-towards-india-s-growth>

<sup>16</sup> <http://www.sezindia.nic.in/about-fi.asp>

<sup>17</sup> <http://taxsummaries.pwc.com/uk/taxsummaries/wwts.nsf/ID/Vietnam-Corporate-Tax-credits-andincentives>

<sup>18</sup> <http://www.indonesia-investments.com/news/todays-headlines/indonesia-unveils-11th-economicstimulus-package-a-quick-look/item6650>

<sup>19</sup> [http://www.mida.gov.my/env3/uploads/Publications\\_pdf/06042015NewIncentives.pdf](http://www.mida.gov.my/env3/uploads/Publications_pdf/06042015NewIncentives.pdf)

## 2.2 Increasing Consumption and Favorable Demographics

The diversity in APAC's demographic trends and profiles is a significant driver of trade potential. It allows APAC to manage the adverse impact of population ageing on economic growth (see Figure 2). For every economy with an ageing population and teetering growth (such as Japan, South Korea, Singapore, and to some extent China), there is an equal number of emerging economies (India, Indonesia, and Vietnam) with an increasingly skilled workforce and purchasing power ready to participate in the global value chain. **For example, by 2030, 1 out of 4 persons will be 65 years and above in European economies, relative to 1 out of 8 in Asian economies.**<sup>20</sup> This also suggests that Asia has a larger share of its population in the working age group. Such a balance is unparalleled in other regions and contributes to Asia's resilience.

By 2030, Asia's urbanization is expected to increase by 30% and account for approximately 54% of the global urban population.<sup>21</sup> This rapid urbanization goes hand-in-hand with job creation and increasing disposable incomes, spurring consumption and demand for a wide range of goods and services.

## 2.3 The Rise of E-Commerce

The significance of e-commerce and its rapid growth in APAC has been previously highlighted (page 8). In 2015, China surpassed the US as the largest e-commerce market in the world. Its online revenue is projected to double to \$1.1 trillion by 2020.<sup>22</sup> With an Internet penetration of nearly 50%, China achieved sales worth **\$14.3 billion in 24 hours** with its biggest online shopping event "Singles' Day" in 2015. With an Internet penetration of 88%, the US pales in comparison with its biggest online shopping day, "Cyber Monday", achieving sales worth \$1.3 billion in the same year.<sup>23</sup>

Also Thailand's e-commerce market, though currently at a nascent stage, is projected to grow at approximately 22% CAGR per annum by 2020. This indicates the untapped potential and future scale of emerging APAC markets for e-commerce.

In 2015, the Asian online population represented 48% of global Internet users, with a 40% Internet penetration rate.<sup>24</sup> **Internet penetration rates across the APAC region are expected to increase by 21%<sup>25</sup> and mobile penetration to grow by 30% from 2014 to 2018.<sup>26</sup>**

### DEMOGRAPHIC COMPARISON

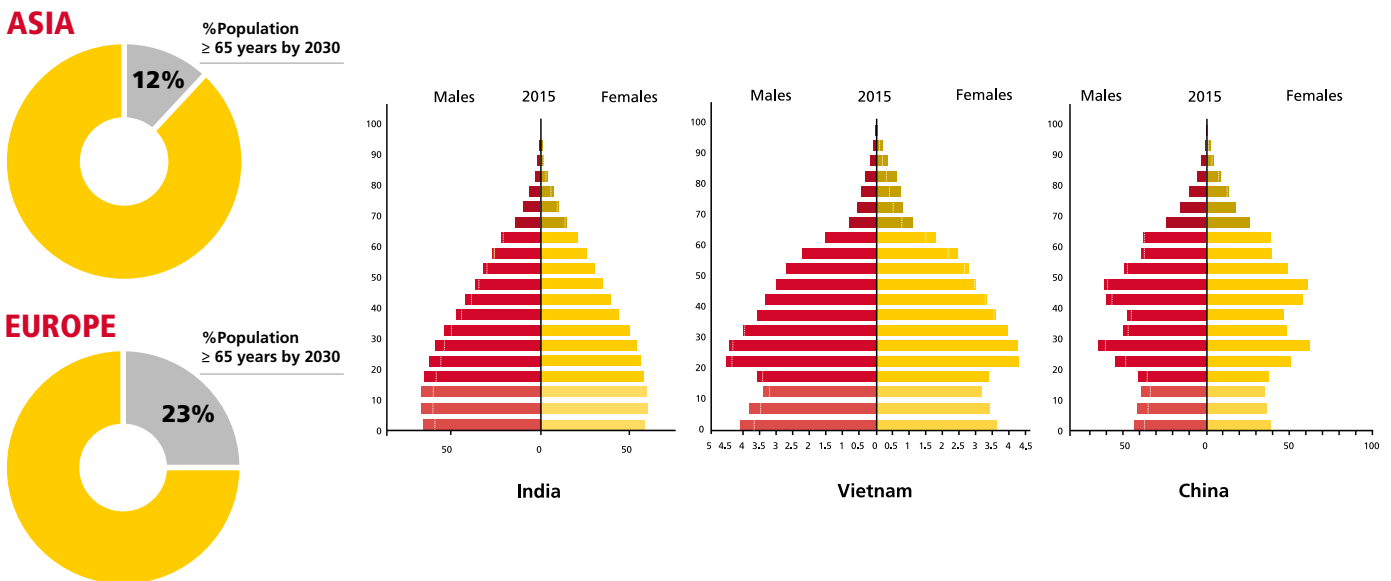


Figure 2; Source: Department of Economic and Social Affairs, United Nations

<sup>20</sup> World Population Prospects, UNDESA, <http://esa.un.org/unpd/wpp/DataQuery/>  
<sup>21</sup> United Nations, 2014  
<sup>22</sup> <https://www.forrester.com/Asia+Pacific+eCommerce+Market+To+Reach+US14+Trillion+In+2020/-/E-PRE8924>  
<sup>23</sup> <http://www.bbc.com/news/business-34773940>  
<sup>24</sup> <http://www.internetworldstats.com/stats.htm>  
<sup>25</sup> Internetlivestats, Internetworldstats, 2015  
<sup>26</sup> eMarketer, 2014

India, with a penetration rate of 30%, is the fastest-growing e-commerce market in APAC.<sup>27</sup> Major players such as Google and Facebook are also working to improve Internet access across APAC, particularly in tier-two cities and rural areas. In India, Google is actively pursuing RailWire, a mega project to provide Internet connectivity across 500 railway stations, and is projected to deliver Wi-Fi across 100 stations in Mumbai by 2016. Google is also committed to Project Loon, which provides free Internet connectivity through high-altitude helium balloons that can travel across the globe; this project will particularly impact rural Australia, India, Indonesia, and Sri Lanka.<sup>28</sup>

The growth of e-commerce has also fundamentally changed consumer shopping habits, giving rise to expectations of "buying anytime, anywhere". Most businesses are currently following a multi-channel approach focusing on optimizing the consumer experience for each channel. However, with this approach the channels operate independently and can often compete with each other. The solution is to adopt an omni-channel approach, allowing consumers to shop according to individual shopping preferences and convenience across all channels. Companies adopting this approach in APAC achieve valuable differentiation. As the following examples show, traditional and e-commerce companies are undertaking many initiatives and innovations across channels to bring a fundamental change in the consumer shopping journey in APAC.

### 1. Cash-On-Delivery Models

**Payment methods are one of the main barriers to e-commerce growth in some of APAC's high-potential countries.** Consumers in Asia prefer to pay cash on delivery. This poses a number of challenges including security risks, a cumbersome and time-consuming exchange process (the waiting period per transaction can be high), and the requirement for personnel-dependent manual reconciliation at the end of each shift or delivery round.

**Virtual or mobile wallets offer an innovative solution to these problems.** Users can preload money from multiple sources such as their bank account, credit or debit card, a kiosk, or immediate payment service (IMPS), and their wallet is ready to use online and offline at different

locations. DHL has recently launched its Mobile Wallet Payment on Delivery solution in Mumbai with companies such as Paytm, MobiKwik, Citrus, PayUmoney, Atomz, and MOM (MoneyOnMobile). This solution allows customers to easily pay for shipments via their mobile wallets. Some of the benefits of a virtual wallet are zero transaction fees on usage and faster transaction check out. Consumers can save time, and using a virtual wallet provides them with a "touch and feel" experience.

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“ Our world is an ever-changing one. In many ways we are already ahead of the competition in terms of innovative and sustainable last-mile solutions. We have deployed drone deliveries and the eScooter. And now with the launch of Mobile Wallet, we are further iterating that convenience to consumers is as important as fast and reliable last-mile solutions. ”

**Malcolm Monteiro**  
CEO Asia Pacific, DHL eCommerce

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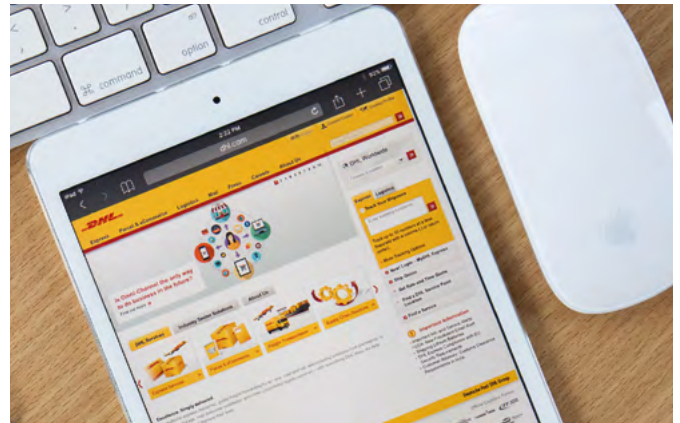
Recent initiatives are revamping **last-mile delivery models** to ensure timely and cost-effective delivery options. Countries like Japan and Singapore offer **automated lockers** where customers can pick up and drop off parcels, eliminating delivery failures.



<sup>27</sup> <http://www.internetworldstats.com/stats.htm>; <https://www.forrester.com/Asia+Pacific+eCommerce+Market+To+Reach+US14+Trillion+In+2020/-E-PRE8924>

<sup>28</sup> [http://www.business-standard.com/article/companies/sundar-pichai-outlines-google-s-plans-for-india-115121600241\\_1.html](http://www.business-standard.com/article/companies/sundar-pichai-outlines-google-s-plans-for-india-115121600241_1.html); <http://www.theguardian.com/technology/2016/feb/16/project-loon-google-balloon-that-beams-down-internet-reaches-sri-lanka>

Operations such as Lalamove located across APAC offer customers a choice of time and mode of shipment via an app which also selects local drivers and couriers for delivery services. These types of **crowd-sourcing option allow customers high levels of flexibility along with efficient delivery**. In India, several start-ups including Taykit have partnered with local service centers (such as department stores, pharmacy shops, salons, etc.) to operate delivery and pick-up services on a revenue-sharing basis. Similarly, DHL Blue Dart Express and the e-commerce company Flipkart are investing in fully automated storage lockers<sup>29</sup> in India.



## 2. Omni-channel Logistics

To cost-effectively fulfill orders across multiple channels requires seamless inventory visibility and a dynamic omni-channel network. Many businesses are choosing to leverage existing physical assets (such as stores and warehouses) to play new roles in direct customer fulfillment. They are also forming new partnerships, for example with e-commerce retailers that otherwise lack physical stores. Together these partners can leverage local store merchandise to fulfill online orders. B2C online retailer Tmall.com's collaboration with Jack & Jones in Beijing, China, is one example; online orders are being shipped directly from physical stores (as opposed to a warehouse) via Tmall's local logistics partner, Winshine Logistics (a partner of Alibaba's logistics arm).<sup>30</sup>

More insights on the logistics implications of this trend and the business strategies needed in this fast-evolving space are captured in the **DHL Omni-channel Logistics Trend Report**.<sup>31</sup>

## 3. Cross-Border E-Commerce Platforms

The growth of e-commerce has seen an increase in cross-border trade, allowing customers to shop online globally at lower costs and with improved logistics. The current challenges to cross-border trade include complex regulations and customs procedures, with companies identifying high cross-border freight costs and long delivery lead times as some of the specific obstacles (Figure 3).

### CHALLENGES OF CROSS-BORDER EXPANSION/TRADE

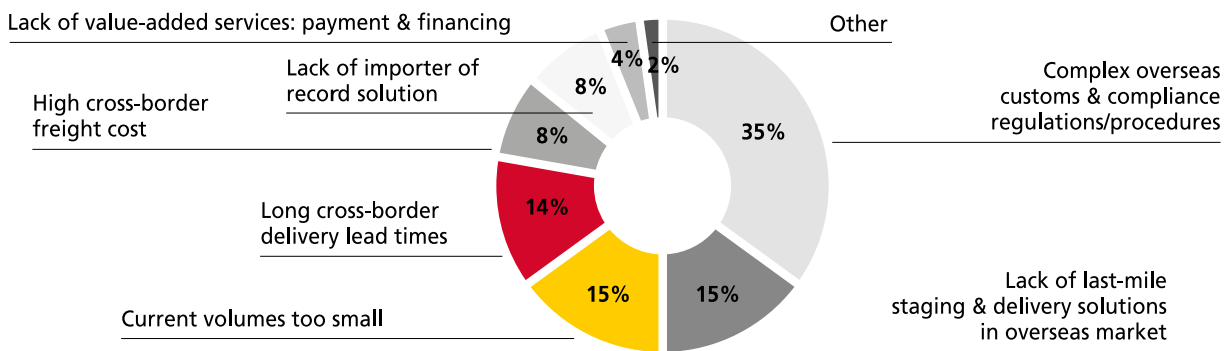


Figure 3; Source: DHL Fast Growing Enterprises (FGE) Business Leaders Forum, 2015

<sup>29</sup> <http://www.livemint.com/Companies/afb2SZHVXicymHZUmCgm5L/Lastmile-delivery-hurdles-pave-way-for-surge-in-new-startu.html>

<sup>30</sup> <https://www.cep-research.com/news/alibabas-tmall-tests-deliveries-in-3-hours->

<sup>31</sup> [www.dhl.com/omnichannel](http://www.dhl.com/omnichannel)

China has piloted cross-border e-commerce platforms to address some of these challenges (see the China Cross-Border E-Commerce Platform case study).

**Regional replication of these platforms is encumbered by low and unpredictable business volumes.** Many companies have indicated that, despite their efforts and obvious market potential, they cannot prioritize e-commerce because of small business volumes. This, in turn, affects investment decisions on warehousing, the salesforce, channel diversification, and more. **Here logistics players can provide the service of an integrated platform enabling multiple companies to cost-effectively manage e-commerce distribution in a new market.** Logistics providers can also successfully enable new market entry by providing end-to-end solutions which offer cost-effective flexibility (see the New Market Entry case study).

Given the rapid growth of this sector, **governments in the region are attempting to keep pace with regulatory changes.** China has recently updated its e-commerce policy imposing additional taxes on imported goods valued at



under \$150. India and Indonesia have recently announced reviews of e-commerce taxation to ensure taxes are paid to the state for all e-commerce/advertisement revenue earned within the country. As the e-commerce sector continues to expand in APAC, businesses can expect more regulations to level the playing field and to deal with the new challenges of data protection, consumer rights, market rules, and information security.

### China Cross-Border E-Commerce Platform (Kuajingtong [跨境通], Shanghai)



Government-affiliated platforms such as Kuajingtong simplify and speed up cross-border e-commerce. Customers use the platform to place an order with a fixed duty of 10%, which is lower than typical duty rates. **This model requires each retailer to set up a customer service channel in China, with services provided in Chinese, to handle returns and customer complaints.** The policy behind this model allows companies to store goods tax free in a bonded warehouse in the free trade zone of a pilot city (as per the China Free Trade Zone), enabling faster delivery times.

This model removes language barriers, long delivery times, after-sales service problems, potential seizure by customs officials, and shopping via a third party (as in the popular Chinese daigou [代购] system) for tax avoidance which also risks exposing consumers to unsafe/counterfeit products.

The website ([www.kjt.com](http://www.kjt.com)) now offers approximately 10,000 products from more than 30 overseas suppliers located in Australia, France, Italy, Japan, South Korea, the USA, etc. International e-commerce companies, including Amazon and Yihaodian, are now working with Kuajingtong to handle logistics, warehousing, and online payments for their cross-border e-commerce sales.

**This model presents significant advantages for both consumers and customs.** For consumers, it ensures buyer protection and shrinks delivery times. For customs, it reduces the handling volume of directly shipped packages and is expected to reduce the number of untaxed parcels entering the country.



Another growing trend is the emergence of the **business-to-business-to-consumer (B2B2C) e-commerce model**. This effectively combines the B2B and B2C models. With B2B2C, two or more businesses collaborate to develop a product or solution, and use a particular service (such as an online marketplace) to reach consumers. It typically requires bulk shipping solutions from point of origin to destination, where goods are stored in a warehouse or fulfillment center for subsequent distribution directly to consumers. DHL is currently developing a China Platform Free Trade Hub to provide an integrated platform for both B2B and B2B2C e-commerce, facilitating cross-border trade with specific focus on consolidating multiple customer volumes and streamlining customs processes.

“ We are going through an era of transformation and definition for e-commerce logistics. The complexity in regulations, and fragmentation in the logistics marketplace, are forcing us to rethink better fulfillment solutions for end-to-end eB2B, eB2C, and now increasingly eB2B2C models. Innovation and the clever use of technology are necessary to keep a company relevant. ”

**Alfred Goh**

Senior Vice President, Global Head,  
Fast Growing Enterprises (FGE), DHL

## New Market Entry Enabled by an End-to-End E-Commerce Solution



Interested to tap into India's growing middle-class market, a Chinese consumer electronics firm lacked sufficient volume to justify a supply chain infrastructure investment. The company therefore partnered with DHL to achieve a strategic end-to-end solution simplifying access to this new market. Key elements of this DHL solution include:

- Goods are shipped from China via airfreight directly to a fulfillment hub in India.
- DHL clears exporting and importing customs through its own customs house agent license granted by Indian customs.
- The fulfillment center serves all channels of the company's multi-channel strategy. Fulfillment is performed for the corporate online sales platform, third-party platforms such as Amazon and Snapdeal, and offline distributors/retailers.
- Through its own Blue Dart organization, DHL performs last-mile delivery to consumers and distributors.

Currently, DHL makes 70,000 cash-on-delivery shipments every day and covers 3,767 PIN codes in India. Service levels require next-day delivery for 147 PIN codes and delivery within 48 hours for nearly 50% of India's PIN codes.

Source: DHL, 2015

## SECTION 3: DEEP DIVE INTO ASIA-PACIFIC'S COMPLEXITY AND TRADE INITIATIVES

### 3.1 Diversity and Complexity of the Region

APAC has huge potential and yet it is also a very diverse and complex region. There is significant variation in country size and economic profile, overall business environment, and levels of performance. Figure 4 offers a comparative view of selected APAC countries ranked across key business, logistics, and connectivity indices.

Developed economies such as Singapore, Japan, and Australia with negative to slow growth rates perform well across the World Bank's Ease of Doing Business and Logistics Performance indices, with Singapore ranking highest on both. **The emerging countries (Asian 6) rank low across the assessment range.** Some key structural and policy challenges highlighted in the survey are:

1. **Lack of supply chain infrastructure.** Economies that operate without quality infrastructure for transportation, energy, and ICT incur higher trade

costs, longer delivery lead times, and low transportation flexibility. For example, delivery of a simple item of mail from Singapore to Indonesia may take up to six weeks.<sup>32</sup>

2. **Changing regulatory environments or unclear regulations** can be very resource-consuming for businesses.<sup>33</sup> Staying on top of these changes and understanding their impact on operations is a big challenge.

3. **Complex customs** within APAC is another key challenge for trade. The region consists of more than 50 countries with no unified customs processes.

**The diversity of APAC economies (from developed to developing) highlights the impossibility of a single strategy for the region.** Governments across APAC are working to address these challenges and stimulate growth by implementing infrastructure initiatives and trade policies, which are highlighted in this section.

### SELECT APAC COUNTRY PROFILES

| NUMBERS FROM 2014                       | DEVELOPED ECONOMIES |       |           |             | EMERGING ECONOMIES (ASIAN 6) |       |         |          |           |          | DEVELOPING ECONOMIES |          |         |         |
|---|---------------------|-------|-----------|-------------|------------------------------|-------|---------|----------|-----------|----------|----------------------|----------|---------|---------|
|   | Australia           | Japan | Singapore | South Korea | China                        | India | Vietnam | Thailand | Indonesia | Malaysia | Bangladesh           | Cambodia | Lao PDR | Myanmar |
| GDP 2014 (US\$ IN BILLION) [1]          | 1.455               | 4.601 | 308       | 1.410       | 10.360                       | 2.049 | 186.2   | 404.8    | 888.5     | 326.9    | 172.9                | 16.7     | 12      | 64.33   |
| GDP ANNUAL GROWTH RATE 2014 [2]         | 2.5%                | -.10% | 1.8%      | 3.3%        | 7.3%                         | 7.3%  | 6.0%    | 0.9%     | 5.0%      | 6.0%     | 6.5%                 | 7.0%     | 7.5%    | 8.5%    |
| EASE OF DOING BUSINESS [3]              | 12                  | 30    | 1         | 4           | 90                           | 142   | 78      | 46       | 120       | 17       | 172                  | 133      | 139     | 177     |
| GLOBAL CONNECTEDNESS INDEX [4]          | 32                  | 40    | 3         | 13          | 84                           | 71    | 33      | 19       | 111       | 21       | 102                  | 48       | 131     | 135     |
| Global Competitive Index [5]            | 16                  | 5     | 8         | 23          | 34                           | 42    | 79      | 28       | 54        | 19       | 92                   | 105      | -       | -       |
| Enabling Trade Index [6]                | 23                  | 13    | 1         | 30          | 54                           | 96    | 72      | 57       | 58        | 25       | 115                  | 93       | 98      | 121     |
| Logistics Performance Index Ranking [7] | 16                  | 10    | 5         | 21          | 28                           | 54    | 48      | 35       | 53        | 25       | 108                  | 83       | 131     | 145     |

Figure 4, Sources<sup>34</sup>

<sup>32</sup> Singpost, 2015

<sup>33</sup> Source: Globaltradealert.org, 2015

<sup>34</sup> Sources: [1] World Bank; [2] World Bank; [3] Ease of Doing Business Ranking assesses the regulatory environment for the starting and operation of businesses; Ranking from 1 to 189, with first place being best; World Bank Ease of Doing Business Index; [4] Global Connectedness Index is a detailed analysis of the state of globalization around the world, measured by cross-border flows of trade, capital, information, and people; DHL Global Connectedness Index; [5] The Global Competitiveness Index (GCI) attempts to quantify the impact of a number of key factors which contribute to create the conditions for competitiveness, with particular focus on the macroeconomic environment, the quality of the country's institutions, and the state of the country's technology and supporting infrastructure; World Economic Forum; [6] Enabling Trade Index assesses the quality of institutions, policies, and services facilitating the free flow of goods over borders and to their destinations; World Economic Forum; [7] Logistics Performance Index is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance; World Bank Organization

## 3.2 Bridging the Gap Through Trade and Infrastructure Initiatives

### 1. Trade Agreements

Aside from bilateral and multilateral trade agreements, APAC is moving towards creating trade zones, economic communities, and trade initiatives to facilitate the flow of goods and services through integration. However, DHL's survey finds that business awareness of these initiatives tends to be as low as 45% (specifically in terms of understanding agreement implications and business potential) with only 6% actively leveraging any initiative.

**Agreements such as AEC (aiming for a unified ASEAN market) and TPP (which is the largest trade agreement in history) have the potential to significantly impact APAC over the next few years.**

Once ratified, the **Trans-Pacific Partnership (TPP)** agreement is legally binding to all member countries. It includes a dispute settlement system and is likely to impact not just regional but global trade. As highlighted on page 7, the agreement brings APAC (Australia, Japan, Vietnam, Malaysia) close to large developed markets, eliminating duties on up to 90% of products traded within member states. Apart from reducing tariffs, the TPP provides numerous benefits including self-certification of origin and direct verification and advance customs rulings.

For APAC, the initiative liberalizes commerce across the agricultural, automotive, and technology sectors. The TPP would make Vietnam very attractive for companies requiring its labor market, and the agreement is predicted to increase Vietnam's growth by 11% by 2025.<sup>35</sup> The TPP should be implemented by 2017-2018.



“ The TPP can fundamentally shift supply chains because it provides significant benefits for companies in TPP member countries. Under the TPP, as an example, if you are a mobile phone manufacturer, depending on where the different components are sourced, every element of the phone including every piece of plastic, every screw, every housing and component as well as the final phone itself could have zero tariffs into TPP member countries. So the potential savings are enormous. With this, consumers could pay lower prices or companies could make greater profits. It will likely be a combination.

Aside from tariff savings, the benefits of the TPP are also across services, investment protections and provisions, and trade facilitation. There are several benefits for logistics companies as well – there will be self-certification of rule of origin and advance rulings for product classification, which can eliminate problems of having goods being re-classified at different ports. These are tremendous benefits that could kick-in as soon July 2017 or 2018. Logistics players should play a more active role in understanding such trade agreements, including what are the benefits, for which products, etc., and help companies to understand how such agreements will benefit them. ”

**Deborah Elms**  
Executive Director, Asian Trade Centre

<sup>35</sup> The Trans-Pacific Partnership: Sizing up the Stakes – A Political Update, Eurasia Group (2015); BBC, <http://www.bbc.com/news/business-34451423>

Following implementation of the ASEAN Economic Community 2015 (see the AEC case study), the region is now focused on AEC 2025. The newly adopted **AEC 2025** aims to create “a highly integrated and cohesive economy” and improve transport cooperation, specifically to develop an integrated regional land transport network.<sup>36</sup>

The level of integration and participation by each member state depends on enforcement of the various agreements regulating intra-ASEAN trade, as the initiative is consensus-driven and not legally binding. Wide variation in the levels of economic development and capabilities gives rise to differences in expectations, and a tendency for some to adopt protectionist policies.

While settlement in an ASEAN court of dispute is available, this is infrequently used. Without enforcement, agreements run the risk of being ignored and becoming irrelevant.

Companies must actively leverage on such initiatives/agreements to realize significant gains in APAC. **In particular, once ratified the TPP has the potential to bring enormous benefits to member countries, and AEC (which should also be closely monitored) has the potential to improve APAC integration and connectivity.** Figure 5 highlights several key trade agreements in the region, along with survey results on awareness levels among businesses and whether there are moves to actively leverage these agreements.

## ASEAN Economic Community (AEC)

The AEC 2015 blueprint has seen two key implementations:

- An ASEAN Free Trade Area which allows businesses to apply for trade preferences that reduce almost all intra-ASEAN tariffs
- The start of initiatives to achieve one harmonized tariff nomenclature

AEC has often been inappropriately compared to the EU Single Market (see table below), but the AEC is neither a customs union (with common external borders) nor a full common market (with regulatory harmonization and free mobility of capital and labor). The DHL survey found low participation in AEC by small and medium-size enterprises due to procedural complexity in applying for tariff preferences (e.g., applying for certificates of origin) under the ASEAN Free Trade Agreement.

## Differences between the EU and AEC

### EU

- Customs union\*: No customs clearance while crossing borders of EU countries
- Free transit through the whole European Union
- Harmonized tachograph systems\*\* and traffic regulations among the countries

### AEC

- Integrating customs procedures
- Simplified visa processes while travelling through AEC countries
- No harmonized tachograph systems \*\* and traffic regulations among the countries

**Note:**

\* A trade bloc which is composed of a free trade area with a common external tariff. The participant countries set up common external trade policies.

\*\* A tachograph records a vehicle's speed, distance, and the driver's activity.

**Source:** DHL, 2015

<sup>36</sup> <http://www.asean.org/asean-economic-community/>

## KEY TRADE INITIATIVES WITH STATUS AND BUSINESS AWARENESS

| TRADE INITIATIVE  | PARTICIPATING COUNTRIES  | OBJECTIVE  | BUSINESS AWARENESS | LEVERAGING AGREEMENTS |
|---|--|--|--------------------|-----------------------|
| <b>IN IMPLEMENTATION</b>                                  |  |  |                    |                       |
| <b>AEC 2025</b>   | Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam  | AEC aims to create a unified market across ASEAN states by harmonizing economic regulations including those on trade, financial capital flows, and labor migration. AEC 2025 focuses on creating “a highly integrated and cohesive economy” with emphasis on achieving productive growth through innovation and technology development, and creating a stronger presence on global value chains, with continued focus to facilitate flow of goods, services, and skilled labor.  | 74%                | 39%                   |
| <b>China Free Trade Zone</b>                              | <p>Pilot in Shanghai with 4 customs supervision areas:</p> <ol style="list-style-type: none"> <li>1) Shanghai Waigaoqiao Bonded Zone</li> <li>2) Waigaoqiao Bonded Logistics Zone</li> <li>3) Yangshan Bonded Port</li> <li>4) Shanghai Pudong Airport Free Trade Zone</li> </ol>  | Strategic initiative aimed at promoting trade and investment to further open up the Chinese economy to the world. China seeks to improve the efficiency of customs supervision, enhance support investments to cultivate an internationalized business environment, and promote the liberalization of its currency. The special economic zone also aims to open up service sectors, promote a friendly foreign investment environment, develop “a headquarter economy”, and implement new trade forms.                 | 71%                | 22%                   |
| <b>Belt and Road</b>                                      | <ol style="list-style-type: none"> <li>1) <b>Silk Road Economic Belt:</b> China, Central Asia, Middle East, East Europe, Russia, and Central Europe</li> <li>2) <b>Maritime Silk Road:</b> China, Southeast Asian countries, India, Africa, Europe</li> <li>3) <b>Sub-projects:</b> Connections between China and Pakistan and the connectivity of ASEAN countries are also included in this initiative</li> </ol> | Belt and Road refers to the Silk Road Economic Belt and 21 <sup>st</sup> Century Maritime Silk Road. This framework is designed to boost economic, commercial, and industry cooperation as well as build connectivity along the proposed corridors. China expects improved connectivity and aims to counter overcapacity in its own country as a result of this initiative. As the trade routes touch more than 65 countries, high investments are needed. Political instability is a risk for this ambitious project. | 45%                | 6%                    |
| <b>Negotiations Complete – to be implemented</b>          |  |  |                    |                       |
| <b>Trans-Pacific Partnership (TPP)</b>                    | Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam  | The TPP is the largest trade agreement in history accounting for 36% of global GDP and 25% of global trade. The agreement is the largest regional trade agreement in Asia Pacific, expected to eliminate duties on up to 90% of products traded in the region.   | 55%                | 20%                   |
| <b>Under Negotiation</b>                                  |  |  |                    |                       |
| <b>Regional Comprehensive Economic Partnership (RCEP)</b> | ASEAN+6 initiative with Australia, China, India, Japan, South Korea and New Zealand  | The objective of this initiative is to facilitate trade of goods and services, enhance economic and technical cooperation, and achieve a high level of tariff liberalization. Negotiations are expected to conclude in 2016, covering tariff cuts and coverage for goods. It also covers a range of services, including investments, e-commerce, and intellectual property rights.   | 57%                | 22%                   |

Figure 5; Source: DHL-IDC Manufacturing Insights Survey, 2015

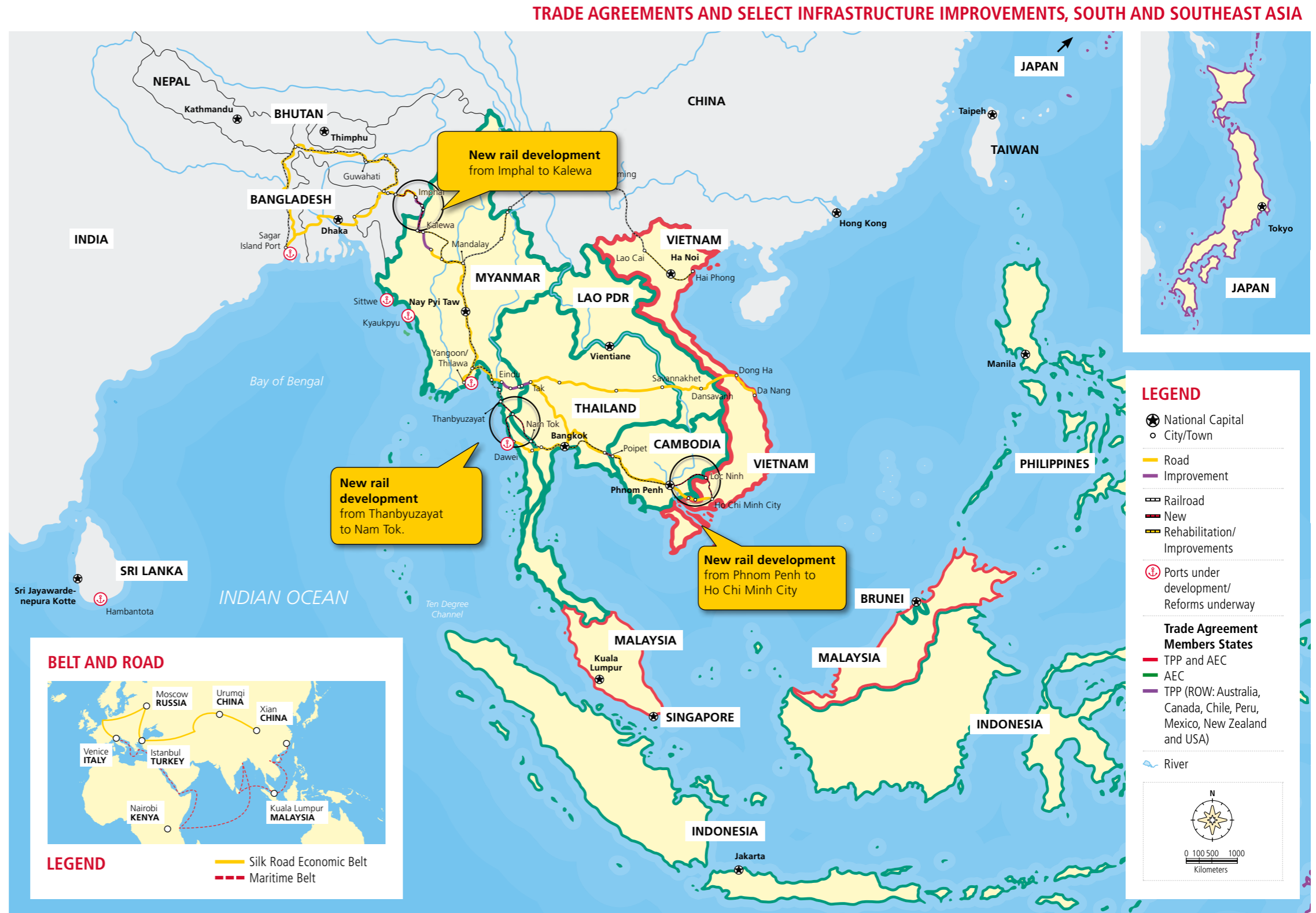
## 2. Infrastructure Improvements

Improving logistics infrastructure (specifically road, rail, and ocean infrastructure) is expected to improve connectivity in the region. An Asian Development Bank (2015) study estimates the total cost of new regional transport projects for South and Southeast Asia (roads, railways, and ports) alone is \$62.6 billion. Once realized, the anticipated benefits of reduced transportation costs are larger than these project costs, in the range of \$89 billion to \$358 billion.<sup>37</sup> Figure 6 highlights select projects from the ADB study to improve overall infrastructure/transportation capabilities in the region.

The Trilateral Highway Project connecting India and Thailand through Myanmar is expected to improve connectivity between countries in South and Southeast Asia.<sup>38</sup> The existing road connections especially in Myanmar are very poor, according to the UN Economic and Social Commission for Asia Pacific. Rail networks are utilized to a lesser extent than roads in South, Southeast, and Southwest Asian countries (with the exception of India). A key element of the ASEAN connectivity plan is the Singapore-Kunming Rail Line. China is also developing its rail link to Vietnam and Myanmar.<sup>39</sup>

Currently, the distance between major ports on prominent trade lanes in the Bay of Bengal area is far greater (1,250 km) than along China's coastline (500 km).<sup>40</sup> This is why projects such as the Sagar Island deep water port in India and Thilawa port road connections in Myanmar are priority developments, improving connectivity through South and Southeast Asia.

China's Belt and Road infrastructure initiative aims to develop connectivity across 60 countries, through a "Eurasian land bridge" from China's east coast to Western Europe along with economic corridors connecting China with Russia, Central Asia, and Southeast Asia.<sup>41</sup>



**Figure 6:** New road, rail and port developments are adapted from Asia Development Bank (2015) and other published sources for trade agreements. **Note:** The boundaries, colors, denominations, and any other information does not imply any judgment on the legal status or endorsement of such boundaries.

<sup>37</sup> <http://www.adb.org/publications/regional-transport-infrastructure-mapping-projects>  
<sup>38</sup> [http://www.unescap.org/sites/default/files/TransportReview\\_2013\\_Chapter1.pdf](http://www.unescap.org/sites/default/files/TransportReview_2013_Chapter1.pdf)  
<sup>39</sup> <http://www.adb.org/publications/regional-transport-infrastructure-mapping-projects>  
<sup>40</sup> <http://www.adb.org/publications/regional-transport-infrastructure-mapping-projects>  
<sup>41</sup> [http://www.cbbc.org/cbbc/media/cbbc\\_media/One-Belt-One-Road-main-body.pdf](http://www.cbbc.org/cbbc/media/cbbc_media/One-Belt-One-Road-main-body.pdf)



**While it is important to develop APAC infrastructure, it is equally important to harmonize regulations across borders to facilitate efficient transit processes.** Without enough political will, regulations are unlikely to keep pace with investments in infrastructure and, as a result, the initiatives could fail to yield perceived benefits. For instance, despite great connectivity between Malaysia and Thailand, there remains no agreement to allow seamless movement of vehicles; this causes long delays for onward shipment and the need for manual transloading of goods.<sup>42</sup>

The success of regional trade agreements depends on establishing tangible deliverables and identifying business needs. For this, companies must work in conjunction with governments to ensure deliverables are relevant and achievable.

Over several years, DHL has been providing proposals for the advancement of ASEAN's integration agenda. For example, DHL has proposed a timeline for ratification and implementation of the ASEAN Framework Agreement on the Facilitation of Goods in Transit and for the ASEAN Framework Agreement on Inter-State Transport. Operationalizing these agreements would pave the way for implementing a single, automated customs transit system across ASEAN for cross-border truck movements, and it would greatly speed up border crossing procedures.<sup>43</sup>

Through such efforts, transit requirements will become standardized, **positively impacting road freight (for simpler and faster movements)**, creating a real transport alternative in the region. Priority must therefore be given to regulatory improvement in conjunction with infrastructural improvement.

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“ Given the manufacturing and consumption growth for this region, beyond the trade agreements it is also important to keep in mind the infrastructure plans for the region. China's One Belt One Road, through the development of the maritime silk route, could enhance key ports and potentially increase volumes of goods shipped.

*The road-rail network would provide additional options to regional supply chains including multimodal solutions. Singapore is focused on building up capabilities to analyze how these changes affect businesses in areas such as total landed cost, inventory cost, and supply chain risk. We aspire to be a unique site for companies to architect and orchestrate their supply chains. ”*

**Lee Eng Keat,**  
Director, Natural Resources & Logistics,  
Singapore Economic Development Board (EDB)

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Improving connectivity will lead to expansion of multimodal transportation options in the region. DHL multimodal solutions are an example (see the DHL Multimodal Solutions case study). Logistics providers can help companies optimize cost, speed, and flexibility through strong planning and leveraging multimodal transportation options.

<sup>42</sup> Efficient Cross-Border Transport Models, 2012, UNESCAP

<sup>43</sup> [https://mynet.dpdhl.com/web/csi-global/news/-/display/20160215081044687950\\_en](https://mynet.dpdhl.com/web/csi-global/news/-/display/20160215081044687950_en)

## DHL Multimodal Solutions

DHL RAILLINE and RAILCONNECT offer rail transportation solutions across the **Asia-Europe corridor**. They provide customers in various industries (including automotive, engineering and manufacturing, retail, etc.) with alternative modes of transport for differing levels of security (e.g., for high-value products), temperature control (e.g., for sensitive goods), and speed (e.g., when time-to-market is critical). Selecting the optimal modes achieves cost savings (rail transportation avoids unnecessary air freight) and shorter transit time (rail is faster than ocean freight). DHL RAILLINE offers an overall station-to-station lead time of 14 days. The rail service runs on a reliable, pre-defined schedule and has available capacity all year round, making it easy for customers to plan around this mode, reduce working capital needs, and achieve a faster time to market.

## DHL ASIACONNECT



## DHL RAILLINE and DHL RAILCONNECT





To reduce the complexity of the APAC operating environment, **more logistics providers are likely to offer end-to-end solutions to customers.** Multinational and global companies are often working with more than 100 customs/logistics brokers across different markets, leading to complexity and increasing indirect costs. A strong **logistics partner can offer management and control functions to help companies manage this complexity.**

One international technology company, for example, engaged DHL to introduce standardization, ensure compliance, and enhance performance management of the multiple agents (importers of record, exporters of record, and customs agents) being used by different country teams across the APAC region.

By applying established control tower processes to this challenge, DHL was able to standardize rates across all agents, manage turnaround time performance, and drive compliance for parts certification. At the same time, DHL provided a single face to the customer for all trade compliance issues in the region. **In future, these services could extend to include an advisory service to customers when designing a supply chain for the region, ensuring trade regulations and tax incentives are incorporated into the overall decision making process.**



## CONCLUSION

We are optimistic about the economic future of APAC. Over the coming years, the relative importance of APAC in the world of trade and commerce will increase. Intra-regional trade is set to grow as connectivity improves, transit times shrink, and service levels rise. Significant cost inefficiencies will be removed from the region's supply chains.

The speed at which these changes occur would depend on the political will to drive trade agreements, infrastructure improvements, and regulatory change.

**Businesses have to ensure their investment strategy is aligned with high-potential markets and trade lanes, keeping their manufacturing footprint in line with trade incentives and responding to widescale e-commerce opportunities with omni-channel strategies.**

Successful logistics providers will be those that channel their knowledge of trade agreements and their local presence into both investment strategy and end-to-end customer solutions. Innovation will be a key differentiator in the region. Technology advancement in areas such as robotics, automation, artificial intelligence, etc. will be key enablers for new service-oriented logistics models and specifically towards creating agile and flexible distribution networks, integrated inventories across channels, and innovative last-mile capabilities.

Businesses and logistics providers must be ready to respond to these new trends. As the global economy shifts economic gears, winners in the Asia Pacific region will be the organizations that are well prepared.

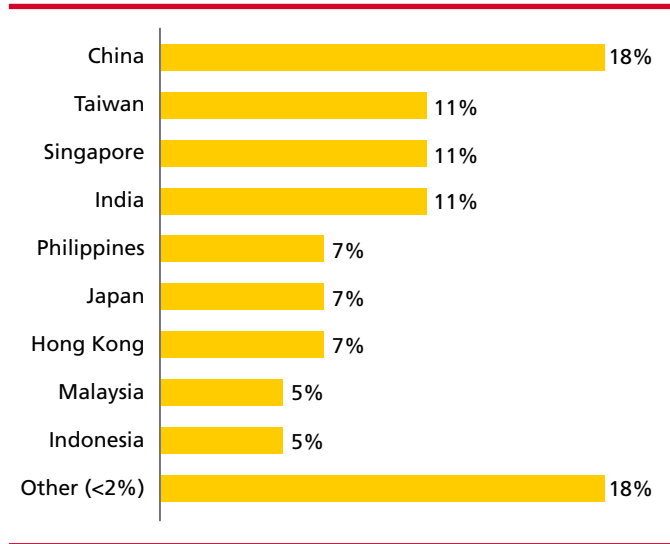


## APPENDIX: DHL SURVEYS – RESPONDENT PROFILES

This paper includes insights from two DHL-administered surveys from the second half of 2015.

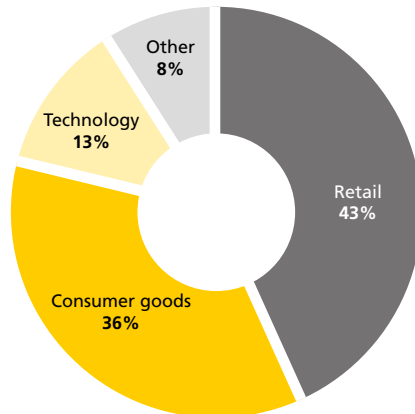
The DHL-IDC Manufacturing Insights survey was run online and by telephone with 56 companies. The figures below show the profile of the survey respondents. In addition, more than 10 detailed interactions were held with decision makers in companies that are in various stages of omni-channel adoption.

### Headquarters

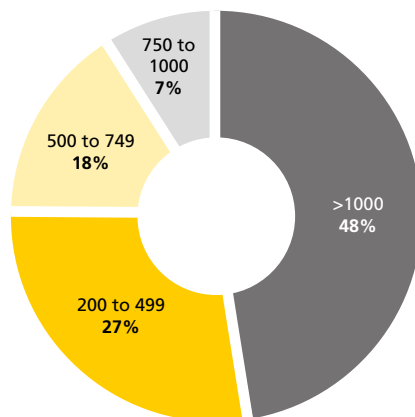


The DHL Fast-Growing Enterprise (FGE) Business Leaders Forum, held in Shanghai surveyed 59 conference participants. The respondents were all based in China, with over 32% in senior executive positions across manufacturing, retail, e-commerce, technology, and government sectors.

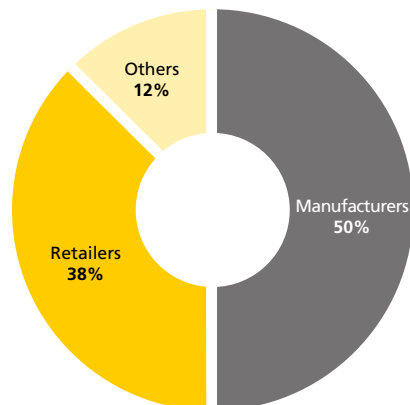
### Operation Industry



### Revenue in 2014 in mn USD



### Nature of Operation



Others: Distributors, raw materials component suppliers, online retailers, import/exporters

## KEY SOURCES

### Asia Development Bank

Regional Transport Infrastructure: Mapping Projects to Bridge South Asia and Southeast Asia, Asian Development Bank, 2015.

URL: <http://www.adb.org/publications/regional-transport-infrastructure-mapping-projects>

### Collier International

Crossing Borders Changing Times, 2015.

### Economist Intelligence Unit

Industries in 2016, Economist Intelligence Unit.

URL: [http://www.eiu.com/public/topical\\_report.aspx?campaignid=IndustriesIn2016](http://www.eiu.com/public/topical_report.aspx?campaignid=IndustriesIn2016)

### Forrester Report

Asia Pacific Online Retailers Forecast, 2015 to 2020, Forrester, 2016.

URL: <https://www.forrester.com/Asia+Pacific+eCommerce+Market+To+Reach+US14+Trillion+In+2020/-/E-PRE8924>

### IDC Retail Insights

IDC Retail Insights Global Shopper Survey, 2015.

URL: <http://www.idc.com/getdoc.jsp?containerId=RI245468>

### PricewaterhouseCoopers

Future of World Trade, 2011.

URL: [https://www.pwc.de/de/transport-und-logistik/assets/future\\_of\\_world\\_trade-final\\_160311.pdf](https://www.pwc.de/de/transport-und-logistik/assets/future_of_world_trade-final_160311.pdf)

### UNESCAP

Status and Progress in the Implementation of ASEAN Agreements on Transport Facilitation, 2015.

URL: <http://www.unescap.org/sites/default/files/6a%20%20Current%20status%20%26%20progress%20in%20implementation%20of%20ASEAN%20agreements%20on%20transport%20facilitation%20by%20ASEAN.pdf>

### UNESCAP

Efficient Cross-Border Transport Models, 2012.

## OUR PARTNERS



### Words Europe Limited

Kay Mussellwhite

Suite 211

80 High Street

Winchester SO23 9AT, UK

Phone: +44 208 144 1340

e-mail: [kay@words-europe.com](mailto:kay@words-europe.com)

[www.words-europe.com](http://www.words-europe.com)



### Rasterpixel Mediendesign

Sebastian Narloch

An der Gumpgesbrücke 26

41564 Kaarst, Germany

Phone: +49 2131 5247331

Mobile: +49 176 61628125

e-mail: [narloch@rasterpixel.de](mailto:narloch@rasterpixel.de)

[www.rasterpixel.de](http://www.rasterpixel.de)

## FOR MORE INFORMATION

About 'DEMYSTIFYING ASIA PACIFIC TRADE TRENDS', contact:

### Pang Mei Yee

DHL Asia Pacific Innovation Center  
1 Greenwich Drive  
Singapore 533865  
Phone: +65 6879 8365  
Mobile: +65 8127 2775

e-mail: [Pang.MeiYee@dhl.com](mailto:Pang.MeiYee@dhl.com)

### Tamanna Dahiya

DHL Asia Pacific Innovation Center  
1 Greenwich Drive  
Singapore 533865  
Phone: +65 6879 8331  
Mobile: +65 9826 2043

e-mail: [T.Dahiya@dhl.com](mailto:T.Dahiya@dhl.com)

### Keya Chaturvedi

DHL Asia Pacific Innovation Center  
1 Greenwich Drive  
Singapore 533865  
Phone: +65 6812 5405  
Mobile: +65 9834 9082

e-mail: [Keya.Chaturvedi@dhl.com](mailto:Keya.Chaturvedi@dhl.com)

## RECOMMENDED READING

### OMNI-CHANNEL LOGISTICS



[www.dhl.com/omnichannel](http://www.dhl.com/omnichannel)

### LOGISTICS TREND RADAR



[www.dhl.com/trendradar](http://www.dhl.com/trendradar)

### E&M WHITE PAPER



[www.dhl.com/emtrends\\_whitepaper](http://www.dhl.com/emtrends_whitepaper)

