AFRICA MYTHS **TEXAS SMART** CHINA SYNDROME **BIG BANK THEORY**

GlobalTrade

THE MAGAZINE FOR U.S. COMPANIES DOING BUSINESS GLOBALLY

MR. CHAIRMAN

GREG BUCHBINDER'S U.S. NAVY CHAIR HAS MADE EMECO INC. A HIT WITH THE WORLD'S HIPSTERS

'THE FUTURE IS EXPORTS' EMECO CEO GREG BUCHBINDER

NEW SPACE

IN THE FUTURE, GEEKS WILL SHOOT YOUR CARGO INTO SPACE—AND INTO THE HANDS OF BUYERS ANYWHERE ON EARTH IN 60 MINUTES

PORTNERSHIP

THE NEW SENSE OF PARTNERSHIP IN THE NATION'S PORTS

THE BURQINI

MUSLIM SWIMWEAR MAKES A SPLASH

TOY STORY

One U.S. company is beating the cheap competition

▲**THANKS, WE THINK** Roosevelt's FTZ program was a riddle in a mystery inside lots of red tape.

FREE THE FREE TRADE ZONE

FOREIGN TRADE ZONES HAVE UNDERGONE A REVOLUTION, BUT MAKING THEM PAY OFF REQUIRES INCREASINGLY SPECIALIZED SKILLS, TECHNOLOGIES AND RELATIONSHIPS. THAT'S WHEN A THIRD-PARTY LOGISTICS PROVIDER CAN HELP. [BY WARREN STRUGATCH]

LAST OCTOBER, North Carolina Gov. Beverly Perdue flew to Asia for a week of high-level meetings and public appearances across industrial cities and financial centers in China and Japan. One stop in the governor's itinerary was a ribbon-cutting ceremony south of Shanghai at Suzhou Industrial Park International Commodities Exhibition Center, or SIP.

Ribbon-cuttings are nothing new, not even in China. Nor in the sometimes volatile U.S.-China trade relationship is it odd to see an American governor leaning on her Chinese hosts for a deal to ship U.S. goods into the China market. But SIP is something very new. Think of it as the beta test—among the first workouts of a powerful new tool for American manufacturers: the foreign trade zone (FTZ) under the command of global logistics firms.

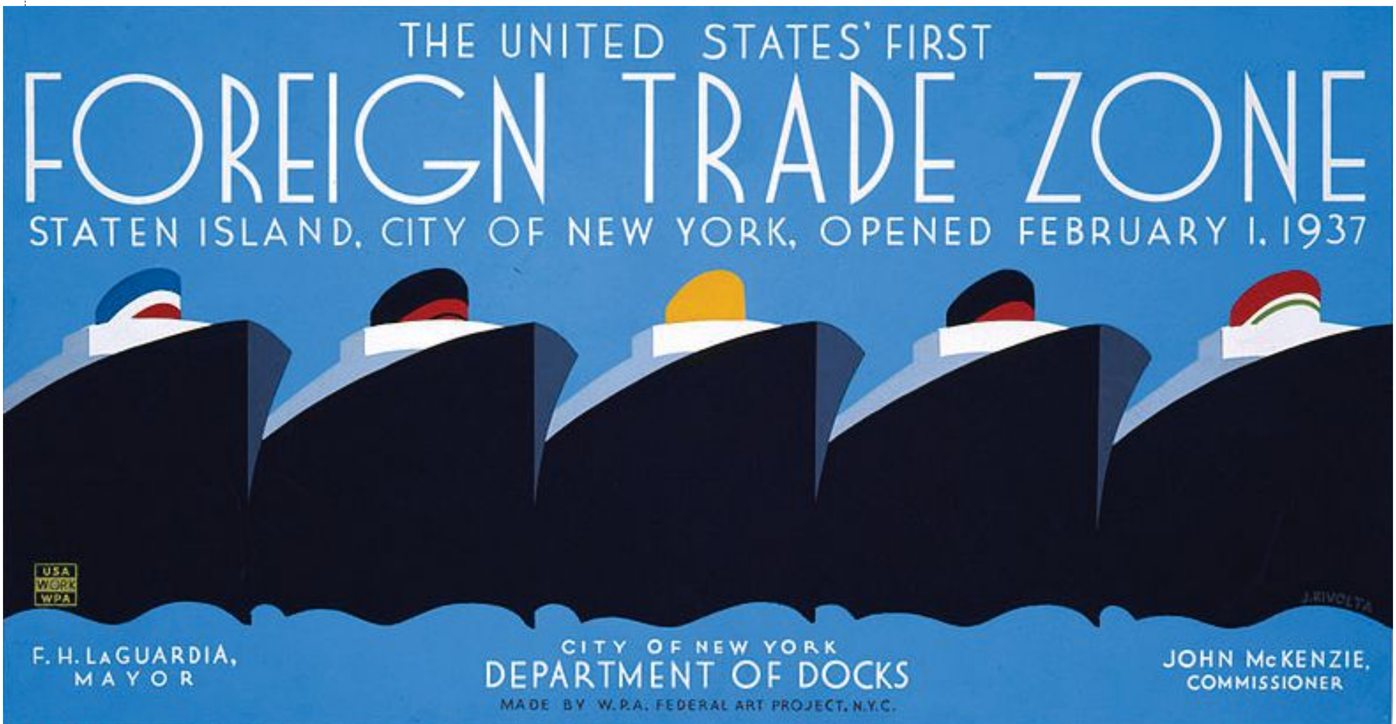
The FTZ is a creature of 1930s-era federal legislation, a kind of real-estate designation tied to reduced customs duties and complicated export-import regulations. The FTZs have always promised to power exports. Now, thanks to changes in the federal regulations that govern them—and because of the advent of third-party logistics providers who are better prepared to cut through red tape—the FTZ's full glory as it occurred maybe to Franklin D. Roosevelt himself—may soon be realized.

To understand how, it's helpful to stay for a moment with our tale of the governor and the SIP.

THE GOVERNOR AND THE SIP

The Suzhou Industrial Park International Commodities Exhibition Center is aa glassy, well-manicured, Western-style retail outlet catering to individual Chinese shoppers as well as wholesalers and other commercial buyers. It's operated by local Chinese industrial authorities in partnership with an entrepreneurial North Carolina couple, Duane and Patricia Long.

Gov. Perdue knew the Longs well from back home; Duane advises her economic staff on China matters. The Longs have been active in international trade since the early 1980s, when they cofounded Longistics, a punningly-named logistics company operating from a



TAKE A BOW
1937 New York City Department of Docks poster celebrates the nation's first Foreign Trade Zone

section of Research Triangle Park called World Trade Park. Both Longs are active as directors, and Duane is chairman of the China North Carolina Center, a nonprofit that promotes cultural understanding and commercial ties. In the months before opening the SIP, the Longs also created Rare Bird Trading Company, offering a range of international and hyper-local logistics services out of both Suzhou and Raleigh.

Here's the key, though. The Longs like to tie business activities together, and make connections among the people they meet. One of the channels through which they do that now is the pair of foreign trade zones they manage near Raleigh-Durham International Airport, the generically named Zone No. 214 and No. 93.

Tenants in these parks, like FTZ tenants everywhere, can benefit from many of the tariff-reduction services that reward eagle-eyed businesses that integrate their shipping functions. The problem is most small businesses aren't eagle-eyed, import-focused, or determined to integrate import and export—that is, to turn their import sources into export markets.

On behalf of the zone companies that become their clients, for instance, the Longs and staff keep a close eye on duties owed to U.S. Customs; track high-value payments; follow the quota trail; get tariffs waived on defective imports; and oversee the complex process of managing inverted tariffs, wherein companies that assemble high-duty items may recoup duties by getting the original import designation changed to reflect the final product, a change that lowers duty rates.

The process sounds complex enough to deter many potential exporters from getting involved.

"When you mention Foreign Trade Zones to people, they go glassy-eyed, and start moving on," said Allen Campbell, a national account executive at Givens, a 3PL located in Chesapeake, Virginia. "Whatever you say, it's generally more information than they want to grasp at that moment."

Making FTZ participation pay off requires an increasingly specialized array of competencies, technologies and relationships, often beyond the scope of what most small and mid-sized companies can muster. In this environment, logistics providers can play significant roles.

"Absolutely, you see the continued involvement of the 3PLs, the guys who do consolidations and cross-docking, all of that," said Trey Boring, a senior vice president at IMS Worldwide, an international logistics and supply chain consulting firm in Houston, and a 10-year veteran of FTZ management. Third-party logistics providers "have really ramped up" over the past few years, he said. "They're very much competing with each other to offer the best services through the zones."

Small exporters were very much the order of the day at SIP's October ribbon-cutting, held in the 10,000-square-foot East City Point Building in Suzhou Industrial Park. The Angus Barn, a rustic steakhouse in Raleigh, presented its line of steak sauces, spice rubs and salad dressings; Childress Vineyards, a Lexington winery, offered chardonnays and merlots; Turnberry Interior Design Group displayed textiles, furniture and décor; BJAC, the architectural firm with offices in Raleigh and Charlotte, showed table-top displays and brochures; and Glen Raven (makers of Sunbrella) brought textile samples.

The exports the Longs merchandised in their new Suzhou showcase were different from the industrial products—the automobiles, petrochemicals, pharmaceuticals—that make up most shipments exiting FTZs. While small, the shipment of exports last year from Durham to Suzhou represents the kind of initiative and new-market development that federal export champions hope will drive exports, in line with the White House goal of doubling U.S. exports by 2015. The target producer is a U.S. company that could export but generally hasn't—or hasn't done so much.

Companies, in other words, like the five businesses from the Longs' North Carolina free trade zones.

"All of the exhibitors are new to, or minimally experienced in, exporting," Duane said. "These are businesses that are exploring new markets in order to expand their model."

PRESTO: YOU'RE AN FTZ

Across the country, some 168 general-purpose FTZs are open for businesses. Historically, some have been sleepy enclaves where politically-connected individuals collected paychecks for years with little pressure to help businesses prosper. Many zones were designated to be eligible to receive trade benefits but, remarkably, never began doing so—as much because the benefits of participation were difficult to communicate as because the demand was weak.

HE'S MAD ABOUT TRADE ZONES

A CONVERSATION WITH DANIEL GRISWOLD, PRESIDENT OF THE NATIONAL ASSOCIATION OF FOREIGN TRADE ZONES

In January, the National Association of Foreign Trade Zones announced one of the more unusual executive-search decisions when it named Daniel Griswold association president. NAFTZ is a 650-member organization comprised of public entities, corporations and service providers who promote use of the U.S. Foreign Trade Zone (FTZ) program. A former journalist and author of the 2009 book *Mad about Trade: Why Main Street America Should Embrace Globalization*, Griswold has promoted free trade via the libertarian Cato Institute in Washington since 1997; from 2007 until his recent appointment, he headed the think tank's Trade Policy Studies. He received a Masters in The Politics of the World Economy from the London School of Economics. *Global Trade* senior editor Warren Strugatch caught up with Dan during the second week at his new job.

My major goals for 2012 will be to raise the visibility of the organization in Washington, to educate the public, policy-makers, and potential users on the value of the foreign trade zones program, and to grow the membership of NAFTZ.

Every FTZ is different, reflecting the economic strengths of the community. That's one of the beauties of the program. It can work for all sorts of businesses—heavy manufacturing, pharmaceuticals, petroleum refining, retail distribution, as well as a diversity of small and medium-sized companies serving global markets.

The Alternate Site Framework has the potential to bring the benefits of an FTZ to a broader range of users and their workers. The ASF program provides more local flexibility to extend FTZ benefits to companies already up and running. Any change that allows more producers to plug into global markets through the FTZ program is worth pursuing.

Our annual report was released today. It shows that, in 2010, half a trillion dollars of goods passed through America's foreign trade zones, and more than half of that was domestically sourced. The FTZ program is a tremendous conduit for U.S. value-added manufacturers. Companies are sourcing from aboard at a healthy pace; without this program U.S. companies would have a strong incentive to locate abroad. The program is also essential to engaging American companies in exporting; exports from the zones were up 23 percent from the year before. I see my role as helping the system be more flexible to help U.S. exporters compete.

To understand the FTZ, it helps to step back with us in time—to the Roosevelt era and the New Deal. Designed to discourage major tariff-paying importers from entertaining relocation offers from source countries, the implications of the 1934 program were grasped quickly by large multinationals, which year after year comprise about 85 percent of FTZ activity. The FTZ's real opportunity today, as the Longs have shown, is in helping novice exporters get some experience, and leading small exporters to new overseas markets—without inducing major expense, becoming snared in federal red tape, or launching brick-and-mortar operations abroad.

Logistics pros like the Longs answer a rising need for sophisticated global infrastructure: software programs, familiarity with fast-changing tariff rates and quota restrictions, and costly warehousing and distribution capabilities, not to mention understanding the impact of post-9/11 counter-terrorism programs and restrictions. These attributes—and the need to maintain personal connections and street smarts in other cultures—have raised the bar considerably for zone operators.

So, for that matter, have internal changes from Washington's slow-moving International Trade Administration. Two years ago, the ITA acknowledged its traditional methods were glacial even by the standards of federal bureaucracies. Since the program's onset, the agency's baroque processes have encouraged local economic development groups to lobby for acreage to be designated for zone use, but set no actual guidelines for what that really meant. As a result, thousands of acres were designated for FTZ use but never activated. The policy produced major costs

YOU MAY ALREADY BE A WINNER! LOCAL GOVERNMENTS NOW HAVE THE POWER TO DESIGNATE COMPANIES "SUB-ZONES."

for the real estate developers who hired consultants to achieve the designations, but produced no tangible benefits. Today, no one involved in the FTZ program seems to know exactly where all those acres are, or the size of the never-activated zones.

"The records go back a long time," said Suzan Carroll-Ramsey, the federal government's liaison with the South Carolina Ports Authority, which oversees most of that state's zones. "I've seen records on carbon paper, if that tells you anything."

Thanks to a new approach adopted by the ITA three years ago, the

FTZs are getting new consideration. The old, haphazard system of establishing an FTZ has been replaced by a new approach the feds, with characteristic creativity, call the Alternative Site Framework, or ASF.

Despite the humdrum bureaucratic nomenclature, ASF represents a dramatic change in the program's potential impact on the American economy. It effectively allows zone overseers—the port authorities and the economic development boards responsible for them—to rewrite the borders of their zones to encompass entire cities and counties, and (based on government approval) extend FTZ benefits to every company in them. In the fall of 2011, for instance, the city of San Jose, California, began the ASF process, taking the first steps to declare the entire city a foreign trade zone—up from a modest 330,000-square-foot section. When that work is completed, city officials will be able to transform companies into FTZ participants, no matter where they are in the city.

Presto: cities and counties become FTZs with the power to designate companies "sub-zones"— and begin capitalizing on export and other incentives.

"ASF is timely and important, and makes FTZs more responsive to market forces," said Brandi Hanback, a vice president with the Rockefeller Group Foreign Trade Zone Services, a commercial real estate developer in Maryland, and former chairman of the National Association of Foreign Trade Zones. "I think this is going to be a major development for the program."

FIGHTING THE TRADE DEFICIT IN ONE STATE

Right now, however, zone managers like the Longs are pushing the envelope in the traditional general-purpose zones, amidst the realities of current economics and geopolitics. At the Suzhou Industrial Park International Commodities Exhibition Center, Gov. Perdue made the statement, both safe and probably prophetic, that the center "will strengthen North Carolina's presence in the Chinese market." The Longs say they intend to build out the center and attract as many as 500 exporters within five years, including many from other states.

Global trade invariably takes place against a backdrop of international diplomacy. In

ALL YOU HAVE TO KNOW IS EVERYTHING

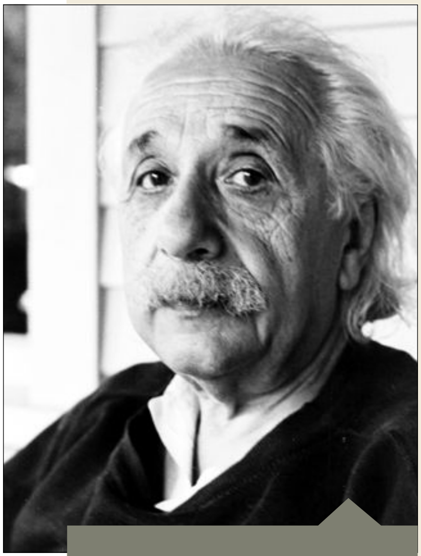
WORKING WITH YOUR LOGISTICS PROVIDER FOR SAFETY AND PROFIT

"It's absolutely critical for shippers to know everything they can about how their cargo is moving, particularly in the post-9/11 environment," says Geoffrey Powell, VP of operations at C. H. Powell Co., one of the largest and oldest logistics services companies in the country.

"Know everything"?

Shippers earned that responsibility in the flurry of cargo-protection legislation that followed the 9/11 attacks. In 2003, the Customs Modernization Act imposed on importers for the first time a "statutory duty" to exercise "reasonable care" in providing Customs & Border Protection (CBP) with accurate and timely classification, appraisement and other data upon importing cargo. Penalties for faulty or false record keeping run upwards of $100,000 per violation.

And we're not talking mere data entry. Even if you outsource your logistics to a third-party provider (3PL), you're on the hook for the use or misuse of your shipment "at all times," Powell says.



YOU COULD CALL EINSTEIN
OR JUST FIND A SOLID 3PL

That's why Powell says "there has to a genuine working partnership between a shipper and the 3PL he chooses to work with."

Start with learning everything about your 3PL provider—down to a fairly molecular level. Powell suggests you'll want to ask, "What kind of internal compliance training is going on? Is the container being monitored? Is it properly sealed? What are the security capabilities of the terminal the container will be moving through?

"All those questions need to be asked, and the more that a shipper is involved in the process, the more assured he'll be that the shipment will move to where it needs to be with minimum delay," he says.

"I tell shippers that the security elements that have come into play since 9/11 factor in additional time and cost to their building an effective supply chain strategy," says Powell. "That's reality, not only here in the U.S. It's true around the world and it's not going to change. It really is a new world."

But it's not all expense in the new world. Knowing everything about your shipment has upsides. "It pays off in saving both time and money, particularly if just-in-time inventory control is a priority," says Powell. "Nobody wants excess inventory sitting around, taking up valuable space and costing them money. Shippers need to know exactly what's going to transpire along the supply chain so their production schedules aren't negatively affected or delayed."
–Michael D. White

Suzhou, behind the happy talk and the camera-ready smiles, there's some higher-level tension: verbal diplomatic skirmishes over charges of currency manipulation; simmering resentment over what Beijing sees as unfounded American accusations; and in Washington, growing pressure to increase tariffs on Chinese imports.

Such steadfast Tar Heel industries as agriculture, pharmaceuticals and furniture have been rocked by Chinese competition. Business owners here as elsewhere seethe over what some feel is unfair competition, at the same time recognizing the emerging markets and industrializing nation's represent their best financial hope for the future.

Emotions, complex and conflicted, play out daily, nowhere more so than in the furniture business. China, whose exports have eroded the state's iconic furniture industry, today is North Carolina's leading trade partner, after Canada. In 2010, China was the country of original for materials worth $87.9 billion through the state's ports; goods shipped in the opposite direction, while growing exponentially, peaked at just $2.2 billion.

Given the massive imbalance and the urgency to drive up export numbers, there's little surprise that government leaders like Bev Perdue have recognized the value of encouraging trade and seeking to leverage import relationships into export deals. In this context, relationship-focused, export-savvy dealmakers like the Longs have understandably prospered, accumulating influence and high-level connections.

The Longs attribute their success to focusing on creating mutually-beneficial Chinese-American deals, connecting buyers and sellers across the ocean, puzzling out customs, tariff, distribution and warehousing strategies on behalf of clients too preoccupied to do so; emphasizing long-run personal relationships and win-win situations over transactions and quick profits.

"Americans do deals quickly," Patricia Long said. "Chinese don't. Our two ways of doing business don't translate easily." She added, "It takes time."

Today, the program is poised for real growth. President Obama's pledge to double U.S. exports within five years was taken seriously by operators like the Longs, who see the potential for increasing exports—provided small and midsized companies make the decision to focus on overseas markets. The largest measurable growth has been imports. In 2010, the last year for which data is available, the combined value of shipments into general-purpose free trade zones and subzones totaled over $534 billion, up from $430 billion the previous year. While antiquated federal export tracking processes cloud the import-export value trail, clearly last year's 24 percent increase suggests that over 2,400 exporters are connecting the dots and taking advantage of cost-cutting opportunities.

Duane Long believes that FTZs are capable of helping expand the ranks of American companies that export: "It's all about having a master plan." ■

IN THE ZONE, ONE OF A KIND

Meet Donald Ambrosio, general manager of Tri-Link Inc. A wine and spirits order fulfillment company, Tri-Link participates in FTZ #52 near MacArthur Airport in Ronkonkoma, New York.

Clarification: Tri-Link is the *only* participant in FTZ #52. "We're extremely unique, in more ways than one," says Ambrosia.

There are 18 companies in the 52-acre parcel known as FTZ #52, but just one–Tri-Link–has registered for the program's financial benefits. At its 40,000-square-foot warehouse, the company processes about $1 million a year in duty deferrals and reductions. "We do the paperwork ourselves," Mr. Ambrosio notes with pride.

As the zone's sole user, Tri-Link's gregarious general manager is also its main user-ambassador—by default. "Don couldn't be nicer when we ask him to talk to potential users about the benefits of being in the zone," says Jaime Martinez, executive assistant with the zone's three-person staff. That no one has taken him up on the offer is not his fault, she says. "Being part of an FTZ sounds very complicated. People are scared of what they don't know."

The zone, with 14 buildings encompassing about half a million square feet of office and distribution space, once boasted three users, but that was years ago. "We had a packaging company and a luxury-car import company," says Martinez, noting both went out of business some years ago. Somewhere around that time the zone began promoting itself online as "Long Island's best-kept secret."

In January, after Islip's incumbent supervisor was defeated in a reelection bid, incoming leader Tom Croci replaced the zone's long-time director with Tracey Lange Krut, a former Oppenheimer Funds sales and marketing executive.

Acknowledging the need to enroll more zone users—not to mention giving Ambrosio some company—Krut noted, "It's pretty clear we need to do more marketing."

—Warren Strugatch