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SPECIAL POINTS OF INTEREST

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CROUCHING LOTUS, HIDDEN DRAGON—THE ECONOMIC RISE OF VIETNAM



After decades of occupation, war, and Soviet-style communist rule, Vietnam, one of the so-called Next Eleven—countries identified by Goldman Sachs investment bank as having high potential of becoming one of the world’s largest economies in the 21st century—is poised to kick its export growth into higher gear over the next five years, as global demand expands and rising Chinese labor costs shift some sourcing elsewhere in Asia. Vietnam has also been included as part of the CIVETS countries, a group which is considered to be very promising because they have reasonably sophisticated financial systems, controlled inflation, and soaring young populations.

The economic reforms known as *Doi Moi*, which were initiated in the 1980’s and led to the replacement of the Soviet-type centrally-planned economy with a market-based mixed economy and eventually a socialist-oriented market economy, has largely been credited with transforming the stagnant peasant economy into a vibrant, market-driven capitalist system that has fueled the emergence and rise of a middle class. Progress, although not perfect, has been steady in basic human improvements—school enrollment is up, the poverty rate is slowly declining, and Vietnam has one of the longest life expectancy rates in Asia and the Pacific (*World Bank report*).

Vietnam has become a center of mobile phone manufacturing, which has grown from nothing to a \$20 billion annual industry in just five years. Nokia and Samsung have shifted production there from South Korea, and Intel, the world’s largest chipmaker, chose Vietnam over the Philippines for building mobile phone components. “This is how you build a frontier economy,” said Richard Martin, managing director of IMA Asia, a consulting and research firm, who expects the CAGR basis to expand by 16% through 2020. Among Vietnam’s chief exports are crude oil, textiles and garments, footwear, fisheries products, and electronics, with the U.S, Japan, and China as the primary destinations.

With a coastline of about 3,400 km along one of the world’s busiest sea cargo lanes, Vietnam aspires to compete with Singapore and Hong Kong, and the building and development of ports has gone into overdrive, resulting in overcapacity. “Almost every province along the coast has managed to have a port project,” said Vu Tu Thanh, chief Vietnamese representative of the US-ASEAN Business Council. “The process allows for a lot of opportunity for corruption and special interests. Many of the good ports do not have enough business.” However, Vietnam expects trade treaties being negotiated to bolster exports, which could help to ease terminal oversupply as shipping companies deploy larger container vessels that can only call at the deep-water port of Cai Mep-Thi Vai.

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continued from page 1 **THE ECONOMIC RISE OF VIETNAM**

There are some bumps in the road, though—literally. Transportation infrastructure projects were planned and executed largely in isolation, without employing a strategic, multimodal corridor approach and with little regard to supply-demand considerations, according to a World Bank report on Vietnam released earlier this year. The general lack of integration in Vietnam's logistics network makes it costly relative to key regional peers, such as China, Malaysia, and Thailand, primarily due to unpredictable supply chains.

And there are other problems, too, which have the potential to slow or derail Vietnam's emerging market share. Foreign investors still regard Vietnam as a risky destination due to the high costs of utilities, office space, and labor. The U.S. State Department has also cited corruption, bureaucracy, lack of transparent regulations, and the failure to enforce investor rights as additional obstacles to investment.

Political tension may also threaten export growth. In May protesters looted 350 garment factories in response to a Chinese oil rig moving into waters Vietnam considers its own. That only a fraction of the factories were actually Chinese-owned suggests that the protests were driven not just by the territorial dispute, but by frustration over wages and work conditions.

Still, Vietnam has benefitted from China's offshoring of lower-

end manufacturing, and the progress made in educating and equipping the workforce with the right skills has helped Vietnam to transition from a mainly agricultural economy to one that is more focused on technology and industry, more prepared to be competitive in the 21st century and take its place at the global economic table.

Like Vietnam's lotus flower, which lives near the mud but still stands upright with a purity and fragrance, the Vietnamese people have faced difficulties but are still standing with upright strength. And like the dragon, which symbolizes life, existence, growth, and prosperity, it seems that Vietnam stands ready to claim some of that growth and prosperity and secure its future.

SOURCES: Bloomberg Business Week—3/14/14; Journal of Commerce [Southern Asia Poised for Export Growth](#)—6/10/14; World Bank [Vietnam Development Report 2014](#); Wikipedia.

Picture of Dragon Bridge, Da Nang—mymodemmet.com



FREIGHT TRANSPORTATION and EXPORTS BOTH ON A STEADY RISE

According to the U.S. DOT's Bureau of Transportation Statistics (BTS) in a June 11 release, the amount of freight carried by the for-hire transportation industry rose 0.4% in April from March. This is the third month in a row that has seen a rise. At an index level of 117.6, April's index was 24.1% above the recession low of April, 2009, and represents the second highest all-time level high, second only to 117.8 in November, 2013. TSI statistics have been recorded since 2000.

The April increase was led by trucking and rail intermodal.

On another positive note, the U.S. Commerce Department reports steady export growth over the last several years. Exports in the first quarter of 2014 have totaled \$576.3 billion, exceeding the same period last year by 3.2%. Exports in 2013 reached a record \$2.3 trillion, up nearly \$700 billion since 2009, and exports now support more than 11.3 million jobs, up 1.6 million since 2009. The trade deficit also im-

proved by \$63.1 billion to the lowest levels since 2009.

Sectors that saw all-time highs across the board in 2013 included key industries such as automotive, industrial supplies, consumer goods, capital goods, and petroleum. Imports of goods decreased for the first time since 2009.

"With 95% of the world's consumers living outside of our borders, now is the time for U.S. businesses to look beyond the domestic market and take advantage of tremendous opportunities in fast-growing markets, especially in places like Africa and Asia," said U.S. Secretary of Commerce Penny Pritzker in an April 17 press release. To that end, the Commerce Department announced the opening of offices in five new countries, largely focused on fast-growing markets in Asia and sub-Saharan Africa.

SOURCE: Dept. of Transportation press release—6/11/14; Dept. of Commerce press releases, 2/2014—4/2014.

\$15 EXPORT RESULTS IN \$90,000 PENALTY

We're sure it happens all the time: your company receives a product order, but you can't decide whether to send it to the account address or the shipping address. However, if those two addresses are in Iran and Dubai, and your product could potentially be used in nuclear programs, you may want to double-check where your shipment is headed—or you could get slapped with a \$90,000 fine.

That's what happened to Lee Specialties, a Canadian manufacturer of oil field equipment, when they shipped rubber circles known as Viton O-rings to Iran in January, 2012. The O-rings seem innocent enough; resistant to high temperatures and chemicals, they are perfect for the oil fields. However, those characteristics also make the O-rings highly desirable for nuclear programs, which is why anything made out of Viton is considered a dual-use item.

Lee Specialties received an order from Kan Dana Middle East LLC for \$6,054.50 worth of O-rings and other equipment, but the order had the account address in Iran and the shipping address in the United Arab Emirates.

As Lee Specialties and Kan Dana went back and forth, the account and shipping addresses were changed five times, with the "last version of acknowledgement" listing an address in Dubai for both fields. But \$15 worth of Viton O-rings found



itself on the way to an address in Tehran, and the Canada Border Service Agency seized the shipment at the airport.

Canadian authorities have increasingly been pursuing companies that violate international sanctions, as well as those who commit economic crimes like bribery. While it was clear that Lee Specialties made a mistake, that mix-up still cost the Alberta company \$90,000, not to mention the legal fees they racked up during their two-year court battle.

"It seems like an innocent thing," noted Judge Allan Fradsham, approving the settlement and adding that the fine was "perfectly appropriate" given the circumstances.

Exporters are always responsible for their own shipments, even if its an honest mistake, which is why Lee Specialties would have been wise to have used an end-use survey tool to ensure that their customer and the intended end-use were approved and in compliance with C-TPAT and EPCI.

SOURCE: Republished from Amber Road's [Road to Global Trade Success Blog](#)—4/17/2014.

WEST COAST PORTS NEGOTIATIONS UPDATE

As of the writing of this article, there are no updates to report in the ongoing labor negotiations at the West Coast ports. By the time this is published there no doubt will be; but, without a crystal ball, we cannot predict the chances of either a resolution or a work stoppage.

In the meantime, the U.S. Customs and Border Protection (CBP) has established interim procedures for trade stakeholders for a possible West Coast disruption that could cause major delays and diversions of vessel cargo arriving and departing from affected ports. The procedures are only applicable during the disruptive event, should one occur.



CBP will provide the trade community instant alerts and up-to-date

information through their [Unified Business Resumption site](#) (<http://www.cbp.gov/newsroom/news/advisories/ubrm>). In addition, CBP will transmit information through the [Cargo Systems Messaging Service \(CSMS\)](#) (http://apps.cbp.gov/csms/csms.asp?display_page=1). Impacted West Coast ports will designate a point of contact for trade inquiries regarding specific procedures for each port, and this information will be disseminated by CBP and posted on the Unified Business Resumption site.

The CBP has posted a set of scenarios that cover procedures for filers when a vessel is diverted to a foreign port and is discharged or not, when a vessel is diverted to elsewhere on the West Coast, when a vessel is diverted to an East or Gulf Coast port, and when a vessel rests at anchor and is not diverted. Details can be found at the CSMS at <http://apps.cbp.gov/csms/csms.asp> under CSMS message #14-000365.

SOURCE: US Customs and Border Protection Cargo Systems Messaging Service notice, 6/24/2014.

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TRIVIA

1. The residents of which city in the world call themselves Cariocas?
2. Which of the following countries has never won an Olympic soccer gold medal in men's or women's competition—Poland, Norway, Hungary, or Brazil ?
3. Which of these famous soccer players is the top scorer in World Cup history—Gerd Müller, Just Fontaine, Ronaldo, Diego Maradona, Miroslav Klose or Pele ?
4. What is the official and predominant language of Brazil ?

[Click here for answers to Trivia questions.](#)

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