

Ship Ahoy: New World's Supply Chain

The Wall Street Journal

By Liam Denning

December 3, 2008

The world is bumpy.

In the age of globalization, conventional wisdom holds that supply chains prioritize labor-cost arbitrage over mere distance.

Geography, however, could make a comeback. Triple-digit oil provided the first intimation of this. Jeff Rubin, chief economist for CIBC World Markets, estimates \$150 crude oil boosted the cost of shipping imports to the U. S. by 11%, costing roughly as much as trade tariffs in the 1970's.

Crude now trades under \$50 a barrel, but the crash reflects faltering demand more than rising supply. When demand recovers, oil prices will, too.

Marc Levinson, author of container-shipping history "The Box," suggests the world also is hitting the limits of economies of scale in logistics, citing bottlenecks at ports and congested road and rail networks. These impose costs and delays and, as supply chains have become more complex, more potential points of failure. Initiatives forcing ships to reduce harmful emissions also will weigh on economics.

Innovation could change the equation again. But the ultimate facts of mass and distance are inescapable when it comes to rethinking logistics.

One answer will be shorter, regional supply chains—a phenomenon observed in changing sources of U. S. imports during the 1970s oil shocks. That ought to have positive implication for exporting economies such as Mexico, while China could suffer.

U.S. workers cheered by the prospect of jobs returning home, however, shouldn't be too jubilant: Globalization and labor arbitrage aren't going away. And rising supply chain costs mean U.S. workers will pay higher prices for the goods they buy.