6

SMALL TRUCKS AND BIG PLANES

TRANSPORT AND LOGISTICS IN THE NEW EAST

For a period, Hong Kong's container port was the largest in the world, intermediating much of China's trade with the rest of the world during the 1990s. The port's history dates back to 1972 when the first vessel, the *Tokyo Bay*, arrived at the newly completed docks. The asphalt at Terminal One had only just been laid, and there were worries that the *Tokyo Bay*'s 200 containers would stick to the quayside. They didn't, and after a devastating typhoon knocked out the region's main container facility at Kaohsiung port in southern Taiwan, Hong Kong's new port was soon booming.[1]

For a visitor to Hong Kong, the port is easy to spot when traveling by train from the airport or flying in over the city at night, its bright lights a complement to the lights of Hong Kong's financial district only a short distance away. Containers are stacked high, making the most of the port's small parcel of land, which is squeezed between the harbor and the industrial and residential estates on the other side of the main highway. Trucks shuttle between the port and mainland China, usually dropping off containers full of consumer goods before picking up empties.

But there's a problem. Hong Kong's container port might look busy, but activity has in fact stalled, and throughput volumes in 2012 were almost unchanged from their level five years earlier. That's a major change from the boom years between 1990 and 2005 when volumes grew at a brisk 10 percent clip annually, except for a dip during the Asian financial crisis. Part of the decline is explained by the rapid growth of competing ports in the neighboring Chinese cities of Shenzhen and Guangzhou. Together with Hong Kong, these cities claim three of the world's ten largest ports.

Even so, there are other influences at work, and the challenges for Hong Kong's container port can be explained by a historic change in the way the region does business.

For much of the past few decades, the East was mainly shipping goods to the West, whether Asian consumer goods to America or Middle Eastern oil to Europe. The region's share of global trade rose steadily during the period, from 18 percent in 1990 to 36 percent in 2012. So powerful was the region's rise that it doomed one of the world's historic trading corridors, the Transatlantic, as trade between America and Europe peaked as a share of global trade during the last two decades and has fallen steadily since.[2] Today, it is trade across the Pacific Ocean and through the Suez Canal that matters.

The legacy of the East's rise is easy to spot. The region accounts for 15 of the world's top 20 container ports—Shanghai, Singapore, Hong Kong, Shenzhen, Busan, Guangzhou, and Dubai, to name a few. It is also home to most of the world's biggest port operators—Hong Kong's Hutchison Port Holdings, China's COSCO, Singapore's PSA International, and Dubai's DP World, all of which operate ports at home and abroad. Over the past 20 years, the East has risen to rule the waves, ending centuries of dominance by the West since the arrival of the first European trading ships in Asia during the 1500s.

But that's only the beginning. What happens next promises to be an even greater change. Whereas the East once traded principally with the West, it is now turning inward to serve local markets. Undoubtedly, sending goods by sea will remain a dominant form of transport, but road and rail are increasingly important channels for transporting products to local consumers. And that's a problem for Hong Kong's container port. The port benefited from free-spending Americans and Europeans, but what happens when it is the Chinese who are buying—and they are spending principally on Chinese goods?

Indeed, the rise of China's inland provinces promises to be one of this century's most fascinating commercial stories. The inland provinces have a population of 720 million and a GDP worth $3,600 billion, meaning that they are more populated than Latin America (585 million) with an economy twice the size of that of Sub-Saharan Africa ($1,300 billion). Yet, over 200 major Chinese cities with populations greater than 750,000 lie some 150 miles inland from the coast. In effect, we are observing the rise of the world's largest landlocked economy, and that will change the way China looks at the world. From Guangzhou's factories to Shanghai's bankers, all are starting to look inward, rather than outward.

Symbolic of the change is Hon Hai's decision to relocate half of its nearly one-million-person workforce from Shenzhen to the inland cities of Chengdu, Wuhan, and Zhengzhou, more than 300 miles from the nearest coast. The Taiwanese company is the world's largest contract electronics manufacturer, producing most of the world's iPhones and iPads. Its decision was partly in response to labor shortages and rising costs in the coastal provinces. But it also underscores a shift in economic gravity and the resulting jobs and income growth in the inland regions.

Easily overlooked, but equally important is the rise of mainland Southeast Asia, a region that includes Cambodia, Laos, Malaysia, Thailand, Vietnam, and also Singapore, given its land bridge to the mainland. The region is only modestly smaller than China's inland provinces with a population of 620 million and a GDP of $2,300 billion. Moreover, the emergence of Vietnam in the 1990s and of Myanmar more recently, together with the move toward an economic union in 2015, a group known as the ASEAN Economic Community (AEC), are all powerful forces for the rise of another major inland economy.

For now, the growth of road and rail transport is mainly due to trade within, rather than between, countries as local manufacturers and retailers respond to stronger domestic demand. But gradually cross-border trade between countries will also strengthen. And for all the attention paid to China's large inland regions, it is Thailand that best characterizes this development. Not only is the country's inland demand flourishing, but Thailand is also strategically located at the heart of mainland Southeast Asia and so is well positioned to benefit from a rise in cross-border trade.

AFTER ARRIVING IN BANGKOK, MOST TOURISTS QUICKLY TURN SOUTH toward the beaches. Yet, most of the country's inland population is found upcountry. Some 36 million people live north of Bangkok in

Thailand's many regional villages, towns, and cities that are spread across a wide geography of mountains and river deltas.

Khon Kaen is typical of those cities. Home to 110,000 people, it is a regional hub for surrounding farming communities, many living in towns of just a few thousand. The city's central districts are a mix of hotels, government offices, and small shops. Of course, compared to Bangkok's massive urban sprawl and 15 million inhabitants, Khon Kaen might appear more like a small rural town, but its strategic position in the country's northeast makes it one of three main centers for a regional population of 21 million people, and the city itself is only a short 125-mile drive to the Laotian capital, Vientiane, to the north.

Indeed, for all the attention paid to Bangkok's packed shopping malls, it is in Khon Kaen and other regional cities where a consumer boom is emerging that is changing the way the country's retail and logistics sectors operate as they start to pay attention to opportunities outside the country's huge capital.

Angkana Songvejkasem is Linfox's General Manager for Thailand and has been a close observer of the changes in the country during her 15 years at the firm, having seen Thailand emerge from the ashes of the financial crisis in the late 1990s to the more recent growth of inland demand. The Australian logistics company is one of the country's largest foreign players with over 3,500 employees and 900 vehicles, serving local and multinational clients ranging from Tesco Lotus to Unilever. When we met in 2013, Songvejkasem had just returned from meeting with industry peers to talk about efficiency in the grocery sector and supply-chain costs.

Songvejkasem was quick to remark on how fast the industry was adapting. "The retailers are driving the change. They are developing a smaller store format due to a shift in consumer trends as well as city planning regulations," she says.[3]

"But that changes the way we deliver. The smaller-format stores don't have much storage room, so we need to deliver two to three times a week. We used to supply the stores directly from our Bangkok distribution center using large trucks. But now we need to use smaller trucks to improve our costs and speed of response. Many companies, both retail and fast-moving consumer goods [FMCG], are building new logistics hubs in the major cities of each region, such as Khon Kaen in the northeast, Lampang in the north, and Surat Thani in the south, where we can consolidate and distribute to these smaller trucks."

There is a large six-foot-tall map of Thailand on the wall of Linfox's meeting room with the country's road network marked out in detail. We walk across so Songvejkasem can point out the changes taking place upcountry. "You wouldn't believe what's happening in Khon Kaen. It's in a strategic position to capture cross-border trade between Cambodia, Laos, Vietnam, and Myanmar. Land prices have jumped between three and five times in the past few years, especially around the ring road where land was cheap. The local government is also spending on roads, railways, and bridges," she says.

"I've also seen more high-rise condominiums and traffic jams recently," adds Songvejkasem, a remark that is usually a good indicator of development in Asia. It's also not bad for a town that once made its money mainly from farming, and it might even convince the city's natives working in Bangkok to return home.

The development in Thailand's northern regions illustrates the transformational change taking place across the rest of mainland Southeast Asia. The rise of the consumer means more people spending in more cities, but also more people spending in smaller and more inland cities. Whereas it was once possible for local and foreign retailers to operate large superstores in just a few cities, they are now operating smaller stores, in larger numbers, and across more locations. Logistics chains are increasingly complicated as a result, as goods are shipped to regional distribution centers and then reloaded onto smaller trucks.

Yet the opportunities for a company such as Linfox are difficult to ignore, in spite of the challenges. Linfox's Asia operations are today larger than its operations in Australia as the company grows its business not only in Thailand, but also in Indonesia, Singapore, and Vietnam, primarily targeting blue-chip foreign multinationals.[4] The growing complexity of supplying local consumers offers opportunities for mid-sized logistics firms able to provide innovative solutions, not just as a result of rising inland demand, but also as shoppers buy more goods through online stores or marketplaces.

The opportunities are still primarily focused on shipping goods within countries. But Khon Kaen's development also demonstrates the potential changes in the region's logistics industry as the Southeast Asian countries move closer to forming an economic bloc. The ASEAN Economic Community (AEC) will connect 270 million people by land, if measuring just mainland members, and a total of 620 million by land and sea. Even if the community remains challenged by non-tariff trade barriers or corruption at borders, it will nevertheless be a powerful growth cocktail for trade between countries.

China is not part of the AEC, but the country's sheer size and the fact that it shares a border with Laos, Myanmar, and Vietnam also make it a possible regional game-changer as trade between mainland Southeast Asia and China's southern and southwestern provinces continues to strengthen and road and rail links improve.

If ties do strengthen, then the southern Chinese city of Kunming, situated just 185 miles from the Vietnamese border town of Lao Cai, will serve as an important hub for the region. The city receives 15 daily flights from Southeast Asia and is the launching point for a future high-speed train linking up with China's southern neighbors. Kunming isn't large by Chinese standards, with a GDP of $40 billion and a population of 3.4 million. However, the city's strategic positioning is crucial as it enjoys easy access to Laos, Myanmar, and Thailand via a road network that, at least on the China side of the border, is relatively robust.

It is the potential tie-up between China's inland provinces and the inland economies of mainland Southeast Asia that is especially exciting, as it creates a regional economy that is significantly larger than that of most other emerging markets, in terms of either population or output. The impact on cities such as Kunming or Khon Kaen will be significant—indeed, it already is, judging by the amount of construction taking place as both cities look to the future. The development may be slower than some hope, but just as the world's center of economic gravity is drifting east, so it is moving inland.

NEVERTHELESS, THE RISE OF INLAND TRADE WILL NOT BE SMOOTH. IN ASIA, it is often said that it is easier to ship goods to consumers overseas than to those at home. Factories are usually located near ports, which are often built and operated by some of the world's largest port operators. Once goods are loaded on ships, it is a straight run to their final destination in Los Angeles or Rotterdam. But as the region's domestic demand strengthens, supply chains will inevitably become more complex because goods shipped inside a country are more vulnerable to a host of challenges, from poor roads to traffic jams to natural disasters.

And just as Thailand is a good study of what happens when it goes right, it also illustrates what can go wrong. Craig Hope-Johnstone is now DHL Supply Chain's Head of Operations for South and Southeast Asia, but in late 2011, he was DHL Supply Chain's Managing Director for Thailand and watched as his business vanished beneath historic flooding.

I had arrived at Hope-Johnstone's office 15 minutes early, having misjudged the city's snarling traffic and enjoyed a surprisingly clear run from the Asok BTS station. Bangkok is one of the few cities where expense receipts can read: *subway, light rail, taxi, and motorbike*, anything to ensure that you arrive on time for a meeting, or at least within a 30-minute range. Having started his career in Australia, Hope-Johnstone has lived in Thailand for the past six years and can provide colorful accounts of Bangkok's traffic. But I am in his offices to hear about those ten weeks in 2011 when it was Hope-Johnstone's job to help make sure that the city didn't run out of food.

"The government approached us during the first two weeks of the flooding, after most of the grocery warehouses went under. They were obviously concerned no groceries were getting to the retail outlets and the population was having major issues finding enough food and water," he recalls. "The Deputy Prime Minister asked to set up a cross-stock warehouse in 72 hours to stock products for retailers and we were offered 100,000 square meters [about one million square feet] of free warehousing near Don Mueang airport," referring to Bangkok's second airport, used primarily for budget airlines and located around an hour's drive northeast of the city center.[5]

"The problem was much of it didn't even have roofs and was unusable. We managed to find 15,000 square meters [about 161,000 square feet]. Even this had some problems with infrastructure, but we hired local electricians and roofers to make repairs," he says. Hope-Johnstone also faced other, more political problems. Local bureaucrats had parked their cars in the warehouse to avoid damage from the floods. Officials weren't the only ones worried about their cars: locals who didn't have access to the warehouse had triple-parked on highway overpasses, making it difficult for DHL's trucks to even reach the warehouse.

But eventually, with a large team on site, the company managed to start shipping groceries in and out of the warehouse within the 72-hour deadline set by the government. Bangkok could breathe easy again as supplies of bottled water, rice, and other consumables started to reach the capital's grocery stores.

But then the Don Mueang area itself started to flood. Worried about rising floodwaters, Hope-Johnstone had suspended operations shortly before the water started rising. Officials were reassuring the population that the area was safe at the time, but Hope-Johnstone and high-ranking air force officials were less certain. "I told my team we would relook at the situation the next morning and then make a decision." By the next morning, the government's flood crisis agency itself had packed up and left Don Mueang, where it had been temporarily based.

Less than a week later, the government offered DHL another site. "At that point, it was getting bad. The water manufacturers had all gone underwater. There were no eggs or noodles. And they were starting to have to import supplies from Malaysia. The government offered us a site in Rayong, south of Bangkok, which had been earlier repossessed for unpaid taxes, and where they had three large buildings that were empty," he recalls. Again, DHL had the site operating within 72 hours of the government's reconnecting the power, and the site dispatched groceries for the next six weeks.

So how do you protect against floods in the future? "The problem is you can't," Hope-Johnstone replies. "Factories can put their transformers up on blocks or build defensive walls around the facility. That prevents damage to the factory equipment itself. But it still doesn't mean you can ship goods from the factory if the roads are flooded." I ask if there is a solution. "Personally, I can't see it," says Hope-Johnstone. "Look, even Phahonyothin Road was flooded. This was built back in the 1930s and was billed as protection for a once-in-a-100-year flood. But the road was completely submerged during the height of the floods."

That suggests long-term implications for Thailand: given its importance to the global automotive and electronics component parts industry, there were certainly worries at the time that manufacturers would leave the country altogether. Hope-Johnstone is more sanguine on this particular risk. "Sure, the car industry was hit badly. Honda lost 1,000 cars to the floods. But many of the parts manufacturers and smaller component manufacturers have simply moved south where the floods didn't reach, rather than leave Thailand altogether."

However, he doesn't discount the potential damage from future floods. "There are two reasons," he says. "First, this wasn't just a short-term disruption. The floods were here for a long time. Second, the transport industry itself was badly impacted as people were driving through water and trucks were getting damaged—engines, gearboxes, etc. There's no middle tier in the transport industry, and the lower-tier players don't invest for the long term so they have older equipment and are vulnerable to flood damage."

Thailand's experience underscores the challenges of shipping by road rather than by sea. Of course, seas don't flood. And while the scale of the flood in Thailand might have been historic, floods themselves are not. In fact, during 2012 and 2013, the list of Asian cities that found themselves flooded was impressively long: Beijing (population 15 million), Wuhan (9 million), Kunming (3 million), Jakarta (10 million), and Manila (12 million). These floods prevented logistics providers from supplying local retail stores for days in the worst-affected areas and even for weeks in cities where the floodwaters were slow to subside.

Moreover, floods aren't the only threat. Earthquakes, landslides, and typhoons are regular threats in the region and can disrupt inland transport for significant periods of time. Typhoons and heavy storms regularly shut down activity in southern China for 24 hours or more. Earthquakes in southwestern China can cause road blockages, and landslides in Malaysia are a common occurrence. If volcanoes might appear to be an obscure threat, I recall being diverted in 2007 by the Sidoarjo mud volcano that continued in 2013 to disrupt traffic traveling south from the Indonesian city of Surabaya.

The sad reality is that Asia is more vulnerable to natural disasters than any other region in the world. The United Nations has attempted to quantify the risks, measuring the number of cities vulnerable to a disaster including flood, cyclone, drought, earthquake, landslide, and volcano. There are nearly 100 cities worldwide at "high risk" from two or more of these hazards and, critically, 74 of those cities are in the East. The region already accounts for half the world's population, but it also accounts for two-thirds of the world's cities at high risk from a natural disaster, with obvious implications for supply chains.

The upshot is that the rise of the East's inland trade is driving major changes in the region's logistics sector, whether as a result of having to supply smaller stores and rely on redistribution centers, or to protect supply chains against natural hazards and potential disruptions to the smooth flow of goods within a country.

Colin Airdrie has seen the best and the worst of the region's supply chains over the past 35 years. Currently the Managing Director of Logistics Bureau Asia, a specialist logistics consultancy, he was formerly the Head of Regional Development for IDS Logistics, the third-party logistics arm of Li & Fung, a Hong Kong–based global sourcing firm, as well as Senior Director of Logistics for CR Vanguard, one of China's largest retail chains. Together, Airdrie's two former employers supply a sizeable share of the goods sold to consumers in America and Europe and, increasingly, to shoppers in China.

Today Airdrie is based in Bangkok, and he has seen the rise of Thailand's inland trade firsthand. "It's the development of modern trade that drives an efficient logistics network. This is the sector that has the highest levels of customer service, rapid turnover of inventory, tight purchasing and delivery procedures, and on-shelf availability. In other words, an effective end-to-end supply chain. The modern trade retailers would die without this," he says. "If the total supply chain practice is poor, then no amount of good infrastructure can get things working at their optimum level."[6]

The need to support the development of more efficient supply chains in the East will in turn create commercial opportunities for those foreign companies able to import best practices and technologies from abroad, applying the experiences learned from helping the West develop its own modern retail trade business.

CHUNGKING MANSIONS IN HONG KONG'S TSIM SHA TSUI DISTRICT IS notorious for its flophouses with their 50-square-foot hotel rooms catering to backpackers and traders. It is also home to some great Indian and Pakistani restaurants and the only decent place in Hong Kong where I can find the full range of genuine Bollywood movies. Walk into the building, and you feel as if you are transported to Chennai, Karachi, or, increasingly, Lagos, for the number of African traders visible in Chungking Mansions has grown steadily in the past decade, alongside China's economic rise.

Yared Desta is one of those traders. I meet him late on a Friday afternoon in the spring of 2013 at an African-owned store on the building's second floor offering an eclectic mix of logistics and other services to new arrivals. He is from Ethiopia and is in town for just a few days before crossing the border to mainland China.

"Cheap goods," he says. "That's what I'm here to buy. I have a small store back home where I sell them."[7] It's not an uncommon story.

In fact, there are even more African traders living across the border itself, mainly in Guangzhou, where they fill some of the city's bigger churches on a Sunday. Indeed, the number of African traders visiting China has risen fivefold in the past decade from near 100,000 to over 500,000 by 2012 as the country's export factories produced just the type of affordable clothing, footwear, and household appliances suited to Africa's growing consumer markets.

Traders like Desta are critical to the region's commerce as they buy for their own stalls or shops. And the African, eastern European, or Latin American traders staying temporarily at Hong Kong's Chungking Mansions are just a sample. In my previous book, *The New Silk Road*, I wrote about the Chinese coastal city of Yiwu and its 200,000 Arab traders who visit the city's vast exhibition halls to stock up on goods each year. But there are also compelling stories to be written about the Africans who fill Guangzhou's churches on a Sunday, or the 5,000 Indian textile traders who live in Keqiao, not far from Yiwu.[8]

It's not only traders. Talk to most bankers, lawyers, or other professionals in the region and you'll learn that they probably spend much of their time on a plane, shuttling between cities and countries. Phone calls and video links just aren't enough in a region where personal relationships are so critical to getting business done. My own story is similar to many others in the region: a typical year might include regular flights to more than a dozen cities, including Beijing, Kuala Lumpur, Mumbai, Dubai, and Cairo, and all the gaps in between. Sadly, airports become as familiar as home.

That's good news for the region's airlines. If land transport is one beneficiary of the region's growing demand, air transport is another. The East might not yet dominate the world's air traffic as it has shaped its sea-lanes, but it is quickly catching up. The region accounts for five of the world's top ten airports by international passenger traffic—Hong Kong, Dubai, Singapore, Bangkok, and Seoul. It is also home to some of the world's largest airlines—Emirates Airlines, Cathay Pacific, Singapore Airlines, as well as more recent arrivals such as China Eastern Airlines and China Southern Airlines.

This is especially good news for Hong Kong. Even as the city's ports have struggled for business, Hong Kong International Airport has not. Passenger arrivals have risen over 50 percent since 2005 with more than 20 million people from other countries in the East arriving each year. In response, Emirates Airlines, Korean Air, and Singapore Airlines have each added an extra 5,000 weekly seats on their flights to Hong Kong in response to that increase in demand, even as British Airways, Lufthansa, and Continental Airlines have seen their own capacity stagnate or even fall sharply.

It is traders such as Desta who contribute to the gains at Hong Kong's airport. But Hong Kong isn't even the region's biggest story. I asked each of those African traders at Chungking Mansions how they flew to Hong Kong. Some flew on Ethiopian Airlines and others on Kenya Airways. But the most common response? Emirates.

IN 2008, TERMINAL 1 AT DUBAI INTERNATIONAL AIRPORT WAS DEFINITELY feeling cramped. Passenger traffic had grown rapidly in the previous years, and the airport was full of people: British tourists standing jet-lagged in duty-free stores, Pakistani workers trying to catch some sleep on the floor, and African traders holding large carry-on bags full of sample merchandise. By the spring of 2009, Dubai had fully opened the airport's new Terminal 3, a vast complex with 26 gates and the capacity for 40 million passengers a year. I arrived on an Emirates flight at 1:00 a.m., expecting the terminal to be empty.

It wasn't. It was jammed full of people and looked no different from Hong Kong's Tsim Sha Tsui underground station at 9:00 a.m. on a

Monday, except on a much bigger scale. Originally hoping for a seat in a café, I ended up going straight to the gate to avoid the crowds congregating in the terminal's central area.

In 2013, Dubai subsequently added a new concourse to Terminal 3, purpose built for the huge Airbus A380s, and further raising the airport's total capacity to 75 million passengers per year. Not content with that, the emirate is also building a new airport, Dubai World Central, to the southwest near the Jebel Ali Free Zone. The airport is designed to eventually receive a stunning 160 million passengers a year. However, the project's initial phases are focused on developing Dubai World Central as an aviation logistics hub with three times the air-cargo capacity of Hong Kong International Airport, already the world's busiest airport by cargo traffic.

That might appear ambitious given Dubai's credit problems during the recent global financial crisis, but it's all a question of scale. For all that Dubai captures media headlines, the emirate's economy is still relatively small when compared to the East's giants. After all, Dubai's $80 billion economy and population of 2 million is small compared to Beijing ($280 billion economy and 15 million population); yet, zoom out a little and Beijing appears small when compared to China ($8,200 billion and 1,300 million). Zoom out again and China accounts for less than half of the East ($18,000 billion and 4,200 million).

Those numbers work in Dubai's favor. Just a small uptick in trade or passenger traffic between Asia and the Middle East can mean a huge relative gain for Dubai's transport sector, not to mention the spillover benefits to the tourism and business services sectors. So long as Asia grows, then so should Dubai.

And it's not just trade between Asia and the Middle East that matters: the bigger prize is Africa. Dubai sits as a convenient midway point for Asian traders and companies looking to do business on the continent. Take a look at any map and draw a line from Beijing to Lagos—the line inevitably crosses through Dubai. And that's only for those able to travel in a straight line between the two cities. More often the only choice is to transit through Dubai via Emirates, or fly Abu Dhabi's Etihad Airways or Qatar's Qatar Airways, two increasingly fierce competitors for passenger traffic between Asia, the Middle East, and Africa.

The rise of China's e-commerce trade also suggests that Dubai might benefit from even stronger express freight business as a hub for goods shipped to shoppers buying online in the Middle East or Africa. The emirate's duty-free status and large industrial parks might equally serve as regional warehouses for Chinese online retailers.

Indeed, Dubai offers Asian companies an attractive business hub, especially for those dealing with North and East Africa, where the populations are often Muslim, speak an Arabic dialect, and have strong historical ties to Dubai or the Middle East. For instance, in spite of all the talk about China's growing trade with "Africa," some 26 percent of its total trade with the continent was with North Africa in 2012. Whereas some multinationals might base this business out of London, there is a good case for Chinese firms to use Dubai for the same purpose, rather than setting up multiple branches in often less secure and less business-friendly cities.

For now, Chinese firms are only just expanding their global networks. But my conversations with Chinese banks and securities firms in both Hong Kong and Dubai suggest that those banks with operations in Dubai have experienced a sudden increase in activity and staff numbers. In the autumn of 2012, for instance, one of China's larger banks was already rapidly expanding its operations. "They are bringing in a whole crew, some 35 people, including Arabic speakers," said a contact familiar with the situation, describing how the bank had taken out a large space at the Dubai International Financial Centre in preparation.

In the 1970s, Pan Am, an early American airline, was still operating two daily around-the-world flights stopping in Honolulu, Bangkok, Delhi, Beirut, Istanbul, Frankfurt, and London. It was a long-haul crawl as Pan Am 001 flew westward from San Francisco and Pan Am 002 flew eastward from New York.[9]

Much has changed since then, and while there are other stories in the region that underscore the importance of air travel, Dubai's role as a transport hub stands out as it illustrates the importance of connectivity to the region's rise: African traders traveling to China, Indonesian pilgrims flying to Saudi Arabia, Pakistani workers heading off to the UAE, and Kuwaiti tourists vacationing in Malaysia are all critical to the region's commercial growth. And unlike Pan Am 001 or 002, Dubai is helping people fly from north to south, not only east to west, making the emirate central to the region's rise.

IF PASSENGER TRAFFIC IS CRITICAL TO THE REGION'S RISE, ITS DISRUPTION is also a disaster. Events in 2013 offered a personal lesson in the vulnerabilities of the region's air industry. At the time, I was shuttling between China and the Middle East, and I watched keenly as viruses broke out in both parts of the world.

In late March, the Chinese health authorities confirmed three cases of human infection with avian influenza, or H7N9. The first case was an 87-year-old male in Shanghai who died just 13 days after he first started coughing up phlegm. As the virus spread, officials shut down all of Shanghai's live poultry markets, believing that the flu was spread through direct contact with infected fowl. TV news programs led with scenes of health officials wearing protective white suits, plastic boots, and masks disposing of the poultry, with over 20,000 chickens, ducks, geese, and pigeons killed in the Huhuai agricultural market in the city's southeastern districts.

The economic impact was immediate, with sales at KFC stores falling 16 percent during March and international airlines suffering a 7 percent fall in share prices during the period as worries grew that this latest virus would be a repeat of the deadly SARS virus in 2003 that killed 774 people in 11 countries, including 349 people in China.

My wife was understandably paying close attention to the events during the time, given that her brother and his wife lived in Shanghai, while I was on a flight almost every week. We made a trip to a pharmacy in Hong Kong's central district to buy high-quality masks to send to her brother, just in case. By the time we left, three others were in the shop stocking up. New infections eased by late May at around 130, and the disruption to travel was limited. I recall flying on an empty plane to Taipei during the peak of the SARS crisis in 2003, but events in 2013 were far less dramatic with planes full as usual.

China did not have a monopoly on viruses that year. In Saudi Arabia, the country was already dealing with a different virus that had a significantly higher casualty rate; whereas birds were the source of H7N9, camels were appropriately linked to the Middle East respiratory syndrome (MERS).

The MERS virus was first identified by an Egyptian virologist in December 2012 and was a strain similar to the SARS virus. Infected patients had also turned up in London. Fortunately, the virus spread slowly, and a World Health Organization emergency panel of experts determined in July 2013 that the virus was not at the time an emergency threat to public health. Indeed, most of the over 90 cases were restricted to Saudi Arabia. But with death rates running at nearly 50 percent, there was understandable concern that the virus might spread through the region's busy airports.

Those concerns were fueled by the fact that 3 million Muslims from 180 countries attend the hajj in Mecca each year, an event lasting six days. It is the largest gathering of people in the same place for such a short period anywhere in the world. Most are traveling from the East; rough estimates suggest that 60 percent arrive from other Arab countries and another 30 percent from Asia. Of those, nearly 90 percent arrive by air, and on arrival often sleep in close quarters, such as in the enormous tent cities at Mina during the second day. In short, the hajj has always faced major health hazards from the mass transmission of disease or virus.

The hajj was scheduled for October 2013, and events in Shanghai were still fresh in the minds of many. Indeed, the Chinese State Administrator for Religious Affairs warned of the risks, appealing to Chinese pilgrims to take care and citing the Quran in its alert.[10] Recognizing the risks, the Saudi government also warned in 2013 that it would not issue hajj permits to the elderly or to those with chronic diseases in order to prevent the spread of the virus. The number of pilgrims was later cut by 20 percent that year owing to expansion work at the Grand Mosque, a fortunate coincidence.

The twin outbreaks were a timely warning that the East is vulnerable to pandemics whether because many of the world's viruses originate in China or because the number of international passengers traveling through Dubai, Hong Kong, and Singapore each year is more than twice the number traveling through Heathrow.

Flu prevention has improved since the SARS outbreak, and most Asian airports are equipped with temperature detectors. Hong Kong still regularly conducts checks. Emergency response plans have also improved, judging by the speed with which Chinese authorities both reported the initial outbreak and subsequently shut down the city's live poultry markets, winning plaudits from the international medical community. The Director General of the World Health Organization also publicly noted China's more rapid and transparent sharing of data with international bodies and institutes combating the virus.

But the economic impact can still be significant. Hong Kong's airline passenger traffic offers a good illustration of the impact. In 2002, shortly before the SARS virus struck, passenger arrivals to Hong Kong averaged around 1.4 million a month. But by April 2003, the number had dropped dramatically to just 420,000 before falling again in May to 280,000. The international airlines were quick to respond and cut capacity aggressively; the number of flights landing at Hong Kong International Airport halved from around 9,000 arrivals a week to just 4,500 during the period. For an international hub such as Hong Kong, the effect on business was a disaster.

Trying to measure the overall impact of a virus, however, is a thankless task. Some companies can operate remotely even as others struggle, and I recall sourcing agents and Hong Kong–based factory owners struggled to inspect their mainland factories regularly. It was much the same for bankers and lawyers who need to conduct due diligence on a company's operations. The impact on the domestic services sector was even greater, with hotel occupancy running at just 17 percent during the worst of the crisis and restaurants often empty, especially in the city's business districts. Many small businesses took years to recover from the financial hit.

Just consider the impact on Dubai from a similar crisis. Even during the worst of the global financial crisis, hotel occupancies never fell far below 70 percent in 2009, judging from public and private data.[11] International arrivals slowed during the period, but only turned negative for a few months. In effect, if Dubai were struck by a virus on a level similar to SARS, the effect would be many multiples greater than that of the global financial crisis on the emirate's services sector. For a city shuttling people between Asia and the Middle East, these are serious risks, as they are for the rest of the region's logistics hubs.

Hotels might struggle to fill rooms and airplanes might fly with empty seats, but other businesses have options, especially in an era of tablet computers and cloud computing. The region's vulnerability to travel disruptions should be a spur to the type of software and equipment that allows employees to work remotely and productively, staying in contact with clients and colleagues. And where direct contact is critical to daily operations, the outsourcing of due-diligence work or factory inspections is only likely to grow in demand, especially among those foreign companies without a local office.

In an era when the East's airports function far more effectively than do many in the West, it is tempting to overlook the need for such business contingency plans. But the events in 2013 were a timely reminder that the region's complexity and importance to the global economy is multiples greater than it was ten years ago during the SARS crisis.

THE RISE OF THE EAST AS A MARKET FOR ITS OWN GOODS WILL BE A SOURCE of both strain and innovation for the region's logistics networks. And if container ships characterized the region's rise over the past two decades, trucks and aircraft more appropriately describe the next two decades as domestic markets continue to expand.

Local companies are in a position to benefit from that change. The region's airlines already enjoy strong growth as local hubs are protected from excessive foreign competition. Moving goods between countries by sea, such as between Thailand and Europe, is also much easier than within a country by road where protectionism and other practices can challenge foreign competitors. Local trucking firms, for instance, can use their deep relationships to good advantage and may also be prepared to pay off officials to overload trucks or avoid inspections, an option unavailable to most foreign firms.

Foreign logistics providers are nevertheless in a better position to deal with the growing complexities of supplying local demand. For instance, Hong Kong–based Kerry Asia Road Transport, one of the region's largest logistics companies, introduced a less-than-truckload service between China and Vietnam in the winter of 2012. The twice-weekly route between Shenzhen and Hanoi was intended to offer a similar transit time as air freight but at a lower rate. This is the type of niche service that local competitors will struggle to offer, but it is critical, especially as the region's e-commerce business booms.

The challenge for foreign companies will be deciding how to most efficiently serve inland regions, rather than just the big spenders in major cities. The importance of third-party logistics providers will grow as companies outsource their supply-chain management to firms providing operations, warehouse, and transportation services. Logistics firms may even try to muscle in on the retail business itself. SF Express, one of China's largest logistics companies, is already growing an online grocery business through its subsidiary SF Best and making good use of the parent company's logistics infrastructure.

The opportunities are also not limited to shipping goods or people for business. The region is increasingly going on vacation. Southeast Asian governments have allowed budget airlines to flourish, rather than protecting incumbents, after recognizing the value to tourism. Today, the region has more than 40 budget airlines, and the number of visitors to Southeast Asia from North Asia, South Asia, and the Middle East has risen by 9 million in the past decade. North Asia has also enjoyed similar gains, and on a trip to the village of Shirakawa-go on Japan's west coast, I heard as much Mandarin, Korean, and Thai spoken as Japanese.

Worries about a pandemic persist, especially for those of us who fly regularly. And the potential economic repercussions are significant for a region that seems ill suited to conducting business virtually. Relationships are still critical to getting business done and demand regular travel. For those firms that have invested in business contingency plans and developed strong local offices or robust relationships with local suppliers, the ability to get on with business will help to not only maintain market share, but even capture share should the disruptions be prolonged.