

NEWS AND ANALYSIS

## Boxed In

How a single Covid case in China exposed the sensitivity of tightly-wound global supply chains.

BY ANASTASIIA CARRIER — SEPTEMBER 5, 2021



The reopening of a crucial terminal at one of China's biggest ports in late August has provided some welcome good news for the global shipping industry. Even so, U.S. retailers and other major importers are still warning of a difficult Christmas season thanks to the high level of stress in worldwide supply chains.

The [Meishan terminal at the Port of Ningbo-Zhoushan](#) in Zhejiang Province — the world's third busiest container port and a major gateway for Chinese exports of toys, furniture and other goods, had been closed for two weeks after just a single positive Covid-19 case was reported there.

The temporary closure at Ningbo-Zhoushan is the latest example of the damage that even tiny numbers of cases of Covid-19 are continuing to wreak over global trade, creating logjams that businesses are warning could impede the supply of goods to U.S. and other Western markets for months to come.

In a recent [letter](#) to President Joe Biden, the National Retail Foundation — a Washington-based industry body representing U.S. retailers — said that virtually all of its members are experiencing shipping delays, with 70 percent facing supply chain extensions of 2 to 3 weeks.

“The entire supply chain is stretched from end to end,” says [Jonathan Gold](#), vice president of supply chain and customs policy at the National Retail Federation (NRF), adding that the current shipping crisis is the worst he has seen in his 20-year career. “I haven't heard of a sector that hasn't been affected.”

The combination of Covid's impact on port workers, and a rise in demand for goods that are still largely supplied by Chinese exporters, has led to what boils down to a simple problem: A severe shortage of shipping containers where they are needed. With ships tied up in queues outside ports in the U.S. and elsewhere waiting to be unloaded, there aren't enough

containers available to be loaded up with fresh goods back in major exporting nations like China.

More than 40 container ships have been waiting to berth at the Los Angeles and Long Beach ports over the past week, a [record](#) level, according to the Marine Exchange of Southern California. Half of the ships waiting to unload came originally from China.

While port congestions have happened before, says Capt. Kipling Louttit, executive director of the Marine Exchange, “nothing was as big as this one.”

The shortage of containers has contributed to a precipitous increase in transportation expenses, with the cost of shipping a 40-foot container from Asia to the U.S. now over \$10,000 – a sevenfold rise from the same period in 2019, data from Clarksons shows.

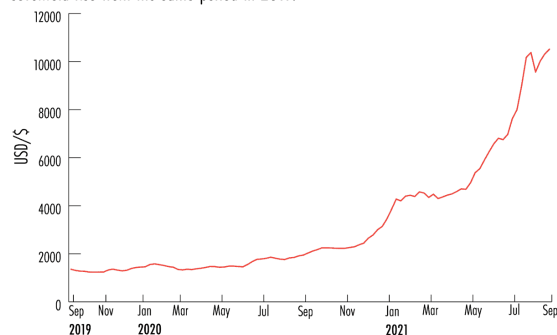
“There are a lot of containers that are stuck in the wrong places. And when that happens, then they can’t be used by other shippers. So that’s leading to some scarcity at the moment,” says [Marc Levinson](#), a historian and the author of [The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger](#).

The closure of Ningbo-Zhoushan follows a similar incident earlier this summer when a Covid outbreak caused another major Chinese port at [Yantian](#), in Shenzhen, to close for a week. Global shipping was also stymied for weeks in March this year after a huge container ship got stuck in the [Suez Canal](#).

These incidents have exposed the sensitivity of tightly-wound global supply chains to even apparently minor problems like the single Covid case reported at Ningbo-Zhoushan port. They have also demonstrated the world trade system’s still heavy reliance on China, which remains home to a huge proportion of global manufacturing despite some industries shifting operations to other Asian countries in recent years.

### “What’s the Holdup?”

Port closures, shipping delays, and the poorly distributed supply of containers mean that the cost of shipping a standard 40-foot container is now over \$10,000 — a sevenfold rise from the same period in 2019.



Data: Global Container Freight Index/ Freightos Baltic Index (FBX)

“Some of the containers are sitting on a boat in Long Beach waiting to be unloaded. They are in the wrong places because the supply chain was set up to do just-in-time delivery with specific shipping routes and strategic port locations. Now, retailers and brands must pivot and quickly identify alternate ports to bring their inventory into the country,” says [David Glick](#), chief technology officer at Flexe, a logistics company.

The combination of port slowdowns and resilient goods demand in places like the U.S. has meant the global trade system has been running close to its limit for months on end. Usually, peak demand for physical goods comes in September through November as businesses prepare for the holiday season, but increased purchases by consumers stuck at home during various lockdowns has shifted the normal patterns.

“What has happened during the pandemic time is that we’ve kind of hit peak capacity and stayed at peak capacity and tried to push past peak capacity,” says [Phil Levy](#), chief economist at Flexport, a logistics technology firm.

There are few quick fixes available. Chinese manufacturers, who make almost all the world’s shipping containers, have been stepping up their efforts to construct more. But it will take

manufacturers many months to fulfill the piled-up orders, says [Steve Saxon](#), a partner at McKinsey & Company specializing in travel, logistics and infrastructure practice in China. Other solutions, such as diversifying supply chains away from China will take years to materialize.

“In the short term, manufacturers and retailers have no choice but to be paying the sky-high rates for container shipping from China,” Saxon says. “Retailers in the U.S. are all panicking because they are desperate to try and get the goods in time for the Christmas peak season.”

While larger retailers may be able to absorb some of this higher shipping costs, small businesses will likely have to pass some of the extra expense onto consumers through increased prices, the NRF warned in its letter to President Biden, adding to inflationary pressures in the U.S..

The crisis isn't expected to improve earlier than next year. In the meantime, the only advice experts can give is to shop early for Christmas.

“What do you do about a really bad traffic jam on the highway? Well, you leave earlier,” says Phil Levy of Flexport.



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## COVER STORY



### Pole Position

BY EYCK FREYMAN

In public, Chinese diplomats and climate negotiators deny that they see any link between climate change and geopolitics. But there is a deeply cynical consensus within China's academic and policy communities that climate change creates geopolitical opportunities that China can exploit — and must exploit before its rivals do. Greenland was the proof of concept for this strategy. And it caught the U.S. flat-footed.

## THE BIG PICTURE



### Transsion's Triumph

BY GARRETT O'BRIEN

A look at Transsion's monumental growth, unique marketing strategies and future growth potential.

## Q & A



### Jörg Wuttke on China's Self-Destruction

BY ANDREW PEOPLE

The EU Chamber of Commerce in China president talks about China's self-inflicted problems; how he gets away with being so outspoken; and why he believes in China's comeback gene.



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