

CBRE RESEARCH

# THE CHANGING FLOW OF INTERNATIONAL TRADE

Impact on Global Supply Chains & Industrial Real Estate

**CBRE**  
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# EXECUTIVE SUMMARY

Global trade provides vital goods to consumers, supports millions of jobs worldwide and is the lifeblood of many industrial real estate markets including Dubai.

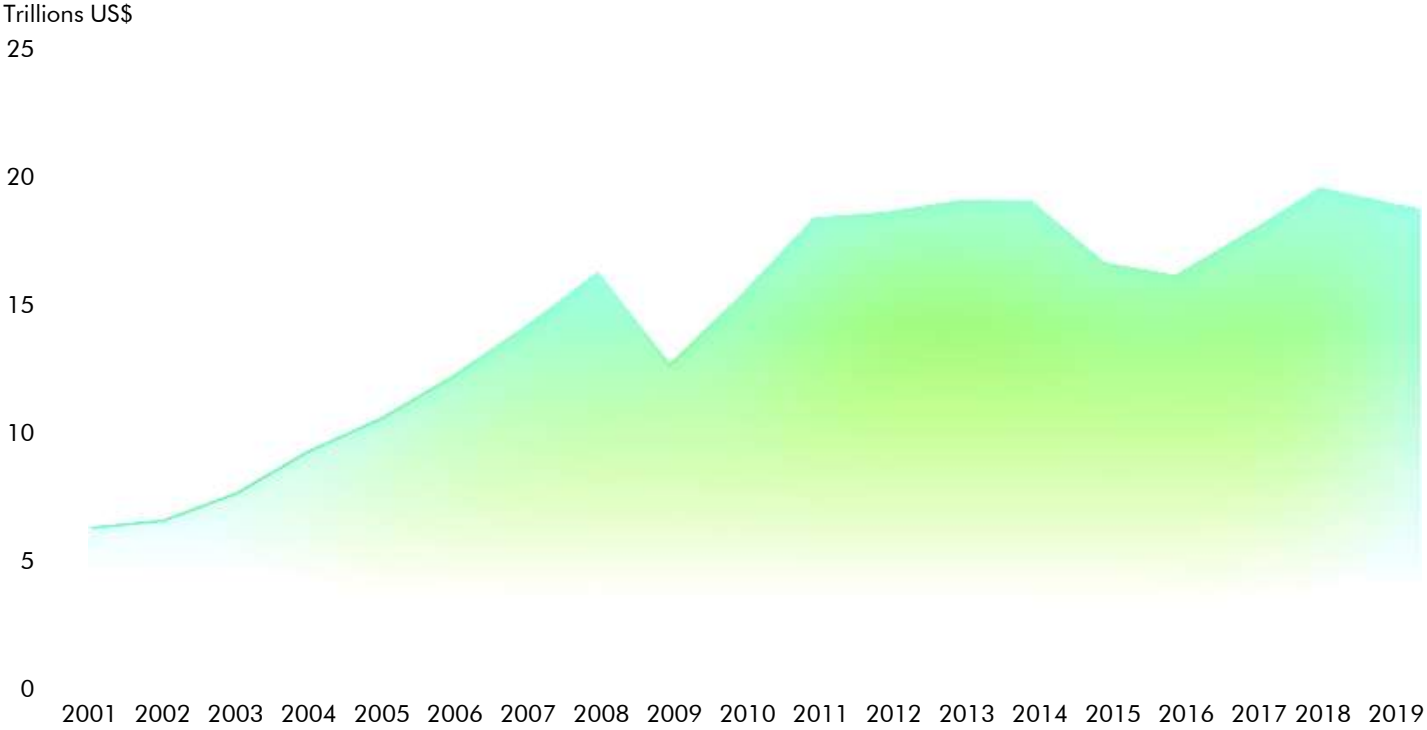
Over the past few years, trade and geopolitical tensions, technological advancements and rising transportation costs have led companies to diversify and regionalise their supply chains. This trend has accelerated with the onset of COVID-19.

Supply chains are going through immense change at a time when consumers are purchasing goods online at a record pace. E-commerce is forcing companies to keep larger and more diverse inventories in closer proximity to end users. Inventory- control failures in the first half of 2020- when many companies could not fill orders efficiently- have vividly illustrated the urgency of having more inventory on hand to support online sales. The combination of inventory controls, consumer habits, population growth and transportation strategies will benefit growing seaports throughout the world and will increase the importance of inland ground, rail and air freight hubs in every region.

Globally, these changes are leading to massive increases in infrastructure spending and modernization of existing logistics hubs, and will put emerging industrial real estate markets on the radar of both occupiers and investors.

Despite COVID-19 revealing serious flaws in traditional supply chain strategies, the global trade behemoths of the Western US, China and the North Sea ports of Europe will remain the major players in global trade. Just like emerging regions, the global gateway powerhouses must modernize to keep up with the rapidly evolving consumer, political and technological changes that will shape trade and industrial real estate in the coming years.

Figure 1  
Total Merchandise Trade Worldwide, 2001 2019



Source: WTO, 2019.



## **CURRENT MARKET DRIVERS**

Shifts in supply chain and the industrial and logistics real estate sector, are being driven by the evolving situation around:

- COVID-19 lockdowns
- Supply chain disruptions
- Economic downturns
- Trade policies
- E-commerce demand

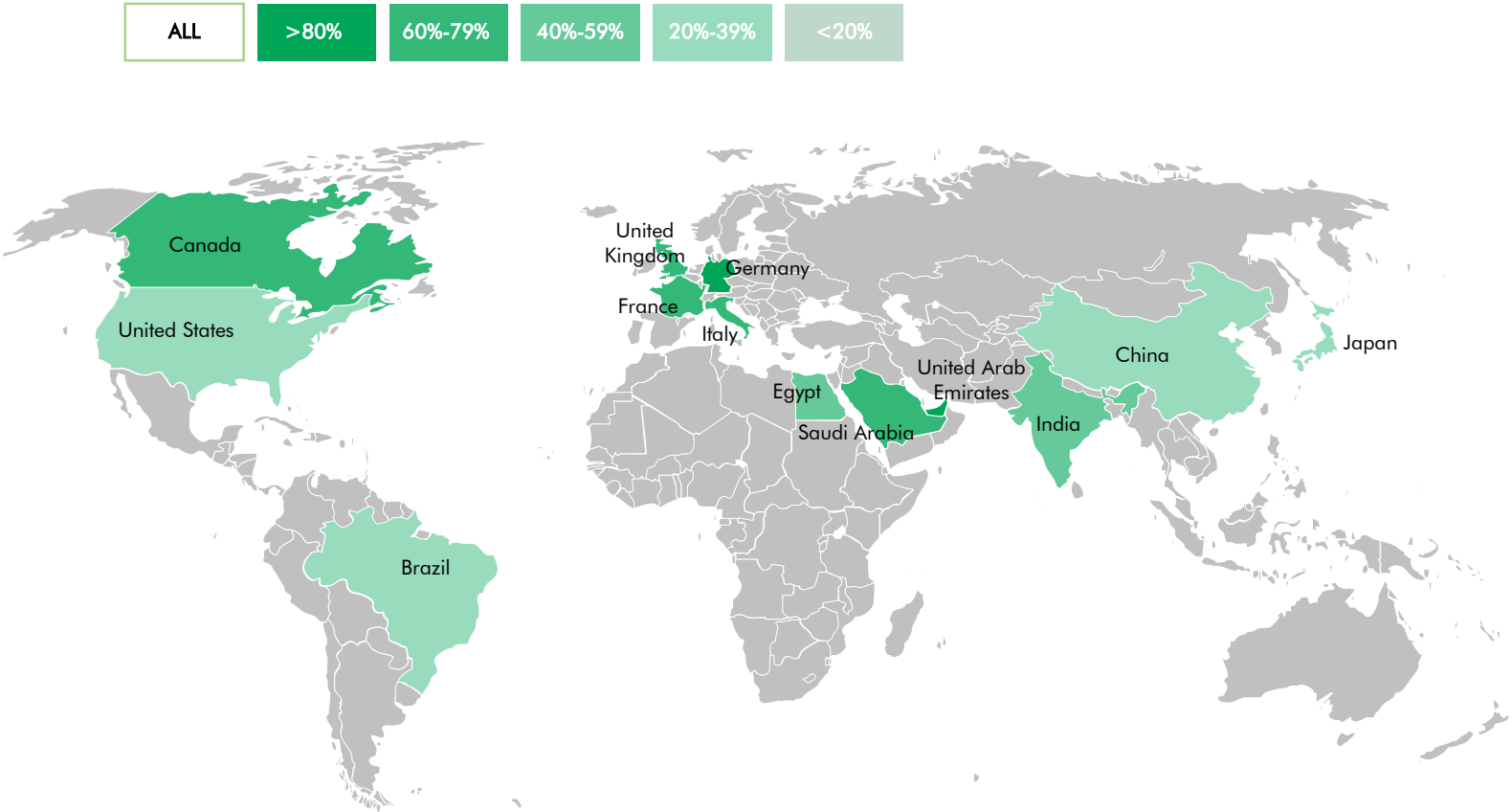
# GEOPOLITICS SHIFTING AN INTERCONNECTED WORLD

Global supply chains and the free flow of goods, have recently been challenged as some major countries consider reshoring manufacturing jobs.

Despite this, the worlds regions remain interconnected, making each more susceptible to health risk like the unfolding COVID-19 pandemic, which is creating significant disruption to of global supply chains. Efforts to improve supply chain resilience, protect intellectual capital and cater to changes in the consumer habits will continue to shift the global flow of goods. The need to control the cost of goods, however means a permanent decline in global trade is unlikely.

GDP by Ranking	Country	% Trade V National GDP
1	United States	20%- 39%
2	China	20%- 39%
3	Japan	20%- 39%
4	Germany	>80%
5	India	40%- 59%
6	United Kingdom	60%- 79%
7	France	60%- 79%
8	Brazil	20%- 39%
9	Italy	60%- 79%
10	Canada	60%- 79%
19	Saudi Arabia	60%- 79%
29	United Arab Emirates	>80%
44	Egypt	40%- 59%

Figure 2  
Economic Openness Index by Country (% Trade vs National GDP)





What we are more likely to see is a ‘China plus One’ strategy to reduce supply chain dependency on China alone.

## SUPPLY CHAIN RESTRUCTURING

Rising labour costs in China and ongoing trade disputes have prompted many global manufacturers to diversify supply chains throughout Asia, and as a result of COVID19, global occupiers with an over dependence on one country or region may reassess their sourcing and manufacturing strategies.

Whilst it is expected that significant reshoring of manufacturing facilities will happen, a wide spread exodus of China is unlikely given the sophistication of the industry, maturity of the supply chain and China’s massive domestic consumer market.

As the global economy restarts, adjustments to supply chains will increase demand for warehouses space. Retailers and wholesalers will store months’ rather than weeks’ worth of inventory, particularly essentials, closer to population centres and service locations.

The COVID19 crisis has unveiled the frailty of just-in-time (JIT) production networks and the long established practice of maintaining lean inventory levels which have been susceptible to closed manufacturing facilities, ports and borders.





## MIDDLE EAST REGIONAL OUTLOOK

- The Middle East is well positioned to benefit from supply chain diversification due to its geographical position between east and west, but also due to previous significant investments into the logistics sector and ongoing pipeline.
- Khalifa Port in Abu Dhabi is extending its existing terminals to increase capacity from 2,500,000 TEU's to over 15,000,000 TEU's in 2030. In addition, KIZAD are pressing ahead with significant speculative development and historical infrastructure works which will support the industry.
- DP World's Jebel Ali Port, already has a capacity of over 22,000,000 TEU's and is adding to this capacity via a high-tech high bay container storage system, which will increase capacity at Terminal 4 by over 200%.
- Etihad Rail once complete will be a 1,200 km rail network connecting the UAE to KSA in the west, and Oman in the east. The UAE network will connect Abu Dhabi, KIZAD, Khalifa Port, Jebel Ali Port, Dubai, Sharjah, Ras al-Khaimah and Fujairah.
- Suez Canal Economic Zone is free trade zone and trade hub spanning over 460 sq km, and consists of 2 integrated zones, 2 development areas and 4 ports. The route which currently provides passage for approximately 8% of annual global trade, is seeing continuous major investment - both local and foreign - which will increase the ports capacities enabling better service for the 18,000 ships which pass each year. Recent investment deals include, \$550 million container port and yard from DP World and an Egyptian-Russian JV which will build out and manage a 5.25 sq km industrial zone over 13 years with a total project value of approximately \$7 billion.
- Al Khomra Zone in Jeddah was launched in October 2019 as a new logistics zone to provide opportunities for private investors, which extends over 2.3 million sq m. Industry focus include shipping, freight distribution and transportation of goods, and forms part of the Kingdom's broader National Industrial Development and Logistics Program (NIDLP).
- Integrated Logistics Bonded Zone (ILBZ), in Riyadh was launched in July 2019 to become the first bonded zone in KSA with the goal of creating a fully bonded, flexible sustainable logistics development.
- Saudi Landbridge is the Kingdom's railway expansion project which was master planned to deliver an estimated 9,900 km of additional railway, and improve the connection between Jeddah in the west and Dammam & Jubail in the east via Riyadh. The completed project will allow freight of cargo across KSA with imports from east Asia via King Abdul Aziz Port, and Europe and the Americas via Jeddah Islamic Port. Set out in 3 phases between 2010- 2040, phase 1 is scheduled to deliver 5,500 km of track by 2025.

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