

## **PANDEMIC AND THE NEW TRADE PARADIGM:**

### **Why the Auction Market Is Replete With Scams, Inferior, Unsafe and Fake Products.**

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[This is the first of two articles that examine the market for personal protective equipment during the pandemic. The second article will look at ways to avoid scams and handle unsafe products.]

The heart of the problem is the unprecedented shock of the pandemic, which no one could have imagined and everyone was unprepared for. The sudden surge in demand for personal protective equipment (PPE) has exceeded the supply of products that are essential but so basic and simple with low value and low demand in regular times. At the same time, there has been a sudden surge in manufacturers and middlemen not previously involved in medical supplies. All of this is occurring in a segment in which there is no global coordination or oversight, and no pre-existing model to manage the supply chain in extraordinary times. Every country is competing against one another. The ultimate losers, of course, are front-line healthcare workers and the general public.

The pandemic has brought out both the best and the worst of people. Many have risked their lives to help others, while many others have used the pandemic as an opportunity for profiteering. Overnight, millions of global traders and factories have emerged to capitalize on one of the most devastating health disasters in recent history. Many of them have neither the experience nor the contacts in trade or manufacturing, let alone in the medical-supplies field.

Greed and desperation to get essential medical supplies to those in need, has transformed the medical-goods market into the “Wild West.” The traditional trade model has been abandoned. The marketplace has become a highly unregulated “Commodity Exchange” replete with scams, fake, and poor-quality products globally, which have cast a shadow over high-quality supplies. Even the most experienced, savvy, and well-informed sourcing professionals now find themselves in uncharted waters.

For 20 years, our organization has worked with companies in international trade and investment. In the past 60 days, we have assisted U.S. companies and professionals in procuring personal protective equipment. I would like to share with you my observations and interpretation of that market at present.

- The personal protective equipment (“PPE”) market is evolving quickly. Regulated and yet unregulated, it is disorganized, constantly changing, confusing, and global in nature.
- Millions of companies and global traders have suddenly emerged in the areas of manufacturing, brokering, and sourcing. Many have very little or no experience, knowledge, or “true” contacts in the business. Many fly-by-night factories have been set up solely in response to the pandemic. They have no experience or technical know-how in manufacturing PPEs. Not only is there an overabundance of intermediaries representing sellers, but also representing buyers. As a result, there could be three to five intermediaries between end users and manufacturers.

- Unlike the traditional trading platform, the market has now become an auction—a “cash but NOT carry” exchange, whereby buyers and sellers transact business but do not necessarily know each other. Transactions are simply done with a handshake or with contracts that have not been carefully drafted or reviewed. Often they are full of errors. Unlike an exchange, there is no clearing agent or third-party settlement (payment) system that guarantees delivery or performance. This is not limited just to finished products; it applies also to raw materials, permits to export and import, space in logistics, and almost everything along the supply chain.
- Most of the time, sellers dictate prices, payment terms (usually cash up front), quantities, and even delivery dates; at the same time, buyers and their brokers are often too anxious to close deals, fearing they could lose further buying opportunities, and for this reason they simply comply with the terms set by sellers.
- Restrictions on travel; the race against time; the imbalance in supply and demand; scarce raw materials; bottlenecks in logistics; constant changes in government policies and regulations have all conspired to force buyers to lower their standards. They often forego proper due diligence, verification of sellers, factory audits, quality control, and even inspection of goods before they are shipped (if they are actually shipped at all).
- While there still exist good quality PPEs, the market has been flooded with inferior or fake products, fake FDA and safety-board certificates, unreliable test results (including those performed and approved by recognized test laboratories). There are even fake factories and distributors now operating in the market.
- Constantly changing government policies and directives have made it unclear which products require approval and certification, and how they are to be approved for export, import and use. In addition, regulatory agents have taken limited action against those who have failed to meet the requirements; and, of course, many have found ways to circumvent the system.
- Bottlenecks in logistics create anxiety to transact quickly before shipping costs rise and space is lost.
- While the risks have almost completely shifted to buyers, factories and middlemen are also taking more risks because many of them know they will be out of business and lose their investment once this pandemic is under control. They are only out to capitalize on a short-term opportunity. The “cash” market has left them no recourse and further encourages them to be aggressive.
- Governments on both the export and import sides have taken steps to normalize the market; however, the rapid changes and complexity in the marketplace, together with the enormous number of players, have made it extremely difficult to regulate trade activity in this segment.

International trade has always had its pitfalls. For the last 20 years, we have been hoping that information technology and increased international trade will usher in greater transparency and professional ethics. But perhaps risks could hardly be mitigated. It is now abundantly clear that a new trade model is desperately needed to preserve the very meaning of global trade.

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