Logística e Infraestructura de Transporte: Clave de la Competitividad

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CIP/OAS
Agenda

• Global issues and trends affecting the world and U.S. economic outlooks
• Implications for sea trade in the U.S. and Latin America
• Are we ready – can we compete?
• Conclusions
Key Global Issues and Trends

• Will higher oil prices derail the recovery?  NO - Not at $70-75
• Will the dollar crash?  NO, but . . .
• China: Hard or soft landing?  SOFT
• New and important players?  YES, A FEW . . .
Has world economic growth peaked? - - - yes, but…

The world economy is in recession when real GDP growth is below 2%.
Container trade normally grows faster than the world economy. This year should be very healthy.
Trade growth is influenced by factors beyond the underlying demand for consumption goods.

- Global logistics sourcing by industry
- Emergence of global trading blocks
- Growth of regional trade facilitation
- Harmonization of trade and regulatory policies
- Trade security standards and information flows
- Increasing freight traffic and congestion along trade corridors and at ports and border crossings

While all regions have increased trade, growth is uneven
Trade is linked to real GDP growth - uneven across the world – and emerging markets grow fastest.
Europe in the long term – a great museum?

... and the visitors will come from China!
Growth is not uniform: Market shifts are coming and will affect U.S. trade and transportation

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Source: Global Insight World Service
Asia is 2/3 of global container trade.

World Container Trade Flow 2005

- **TRAN-S-ATLANTIC**
  - 5.4 million TEU
  - 5.7% Growth

- **ASIA-EUROPE**
  - 12.1 million TEU
  - 12.2% Growth

- **TRAN-S-PACIFIC**
  - 19.3 million TEU
  - 10.8% Growth

- **INTRA-ASIA**
  - 26.2 million TEU (including Australia, Indian Subcontinent and Middle East)
  - 10.0% Growth

E-W = 43%  Intra Asia = 31%
The U.S. expansion is entering a new phase – a significant slowdown is here.

• The U.S. economy had strong momentum entering 2006.
  • 5.3% in the first quarter
  • Just 2.7% in the second!

• Consumer spending growth will slow in response to higher interest rates, high energy prices, and a weak housing market.

• Home sales and construction are declining as affordability deteriorates; hurricane rebuilding will cushion the fall.

• Business investment is now leading the expansion, supported by record profits and global market growth, especially Asia.

• Non-residential construction is poised to grow, at last.

• Further dollar depreciation is expected, so exports will improve.

A Fast Start and A Slow Finish in 2006
The U.S. economic expansion is slowing quickly.

- Real GDP Growth
  - 2006: 3.4%
  - 2007: 2.6%

- Unemployment Rate

(Annual percent change, 2000 dollars)
(Unemployment rate - %)
A Record U.S. Current Account Deficit – over $800 billion as far as the eye can see.
The U.S. dollar will depreciate further – steady declines through 2008, due to huge current account deficits.

This could be 10-30% drop in the dollar.
The U.S. was the engine of growth, but in 2006 this will shift to Asia. Asia is supporting world growth.

• Inflation remains under 4% in most Asian economies — exceptions include Indonesia, India, and the Philippines.

• High saving rates mean these economies will continue to be capital exporters - investors in ports and transportation infrastructure (even Canals?).

• China will have a soft landing.

• Exchange rates across Asia will rise as part of a global trade adjustment.

China was 1/3 of US imports in 2000 and will be ½ by 2010.
India could align with China and create a powerhouse from toys to high tech.

$800 billion GDP
8%/year total TEU growth to 2010
6.8% GDP growth this year (2006)
1.1 billion population is growing 1.5% annually
China’s momentum is hard to slow down, but the government is trying **soft landing** most likely.

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<th>2004</th>
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<td>Real Per Capita GDP (2004$)</td>
<td>$171</td>
<td>$964</td>
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<tr>
<td>Real GDP as $ of US Level, 2004$</td>
<td>3%</td>
<td>14%</td>
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<tr>
<td>Real GDP growth in previous 20 years</td>
<td>5.3%</td>
<td>8.6%</td>
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<tr>
<td>Population (millions)</td>
<td>981</td>
<td>1,300</td>
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<tr>
<td>Trade's share of GDP</td>
<td>15%</td>
<td>85%</td>
</tr>
<tr>
<td>Number of Supermarkets</td>
<td>0</td>
<td>70,000</td>
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<tr>
<td>Current Account Surplus ($ billions)</td>
<td>1</td>
<td>266</td>
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<tr>
<td>Agriculture's share of GDP</td>
<td>30%</td>
<td>15%</td>
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<td>Urbanization</td>
<td>20%</td>
<td>33%</td>
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As China expands its markets, the U.S. becomes less important.

Source: Global Insight World Trade Model
Market penetration in some sectors is reaching saturation …
But look at China’s penetration of new market segments.
China Economic Summary

- There appears to be little risk at the macro-economic level. Even with a ‘soft landing’ we will see growth in excess of 8% GDP through 2010.
- The exchange rate will revalue smoothly.
- The financial markets, although not exactly stable, are also not seriously in danger of toppling.
- So long as Foreign Direct Investment continues, we will see the continuation of an export driven economy.
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China’s container exports continue to grow at double-digit rates – NAFTA’s share has hit 45%.

TEU exports climb by 14.3% in 2006.

Source: Global Insight World Trade Model
Mexico joins China’s million-TEU club

China/HK - Largest Export Markets

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<th>2010</th>
<th>2006-10</th>
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<td>United States</td>
<td>12,084,640</td>
<td>9.8%</td>
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<td>Japan</td>
<td>3,778,186</td>
<td>9.1%</td>
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<tr>
<td>Mexico</td>
<td>2,798,144</td>
<td>15.5%</td>
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<tr>
<td>South Korea</td>
<td>1,862,507</td>
<td>11.4%</td>
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<td>Germany</td>
<td>1,554,331</td>
<td>10.1%</td>
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<tr>
<td>United Kingdom</td>
<td>1,447,126</td>
<td>11.2%</td>
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Mexico already imports 1.5 million full TEUs from China (2006).

Mexico is the fastest-growing large market for China/HK. Is Mexico prepared for this?
Some Mexican alternatives are being discussed – to serve the US market. Even more attention if the Panama Canal is not expanded.

- Container volumes will continue to grow.
- USWC port and rail congestion could return – 5 years?
- All-water service costs may go up.
- There are wrinkles to iron out.
Latin America’s sea trade is expected to grow in line with general world sea trade growth. Imports will outpace exports.
When Mexico is added, the growth is enormous in the future. Imports from the Far East – shown below.
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Why do countries fail? 3 main reasons

1. **DICTATORS**
   - They cannot manage everything, especially people’s desire to eat and be free

2. **SHUTTING THE DOORS TO REST OF THE WORLD**
   - Domestic costs grow out of proportion
   - Cannot take advantage of better products, lower prices, from abroad
   - Customers are not satisfied – product selection is limited
   - Lack of foreign competition causes industries to stagnate
   - Investments from outside disappear

3. **DISEASE

Source: U.S. Government, Central Intelligence Agency
Keys to competitiveness

• Open all the doors to trade –
  • The more open, the better
• The ports and inland infrastructure must be made more productive and expanded in some cases.
• Asian ports have increased productivity much faster than European or U.S. ports.

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<th>2004</th>
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<td>Asian Ports</td>
<td>9,272</td>
<td>16,595</td>
<td>12.3%</td>
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<tr>
<td>European Ports</td>
<td>4,284</td>
<td>6,396</td>
<td>8.3%</td>
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<tr>
<td>U.S. Ports</td>
<td>2,894</td>
<td>4,018</td>
<td>6.8%</td>
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Source: John Vickerman, TransSystems, CI Database, Seaports of the Americas
Container vessel wait time at LA/LB – a short interruption of service, affecting productivity, can cause . . .

Source: John Vickerman, TranSystems, derived from data from Marine Exchange of Southern California
… a fast shift by carriers to alternate routes. Here, carriers shifted to the US East Coast through the Panama Canal.

And a $13 billion impact on the U.S. economy, in 10 days

62% of the growth in US imports from North Asia shifted to the USEC in 2002 – fairly elastic.

Source: Global Insight World Trade Model
Ports are potential bottlenecks in the supply chain.
There is a severe need to expand port capacity and throughput capability.

• By 2010, there will be a shortfall of 4.1 million TEUs just in the U.S.*
  • LA/LB is headed for a capacity crunch
• If port productivity remains unchanged, we will need 405 Ha of new container terminals.*
• Even if the Panama Canal is expanded, we will hit the capacity crunch before 2014.

* A. Scioscia, APM Terminals
If more capacity is not provided in the ports in all of the Americas,

• Cost of containerized goods will rise.
• “Just in time” will become a term used in textbooks only.
• Shippers and carriers will look for new routes.
• There will be winners and losers in the port sector.
What can we do?

• Ports should expand the terminals and yards.
  • This is difficult in many in-city ports

• Productivity should be improved, to reach the levels already achieved in Asia.

• New technology should be introduced in the yards.
  • At the berth
  • In the storage yard
  • At the gate – better information and weighing technology

• Labor and management should work together to allow new technology to be used in the ports.
All of the stakeholders should come together . . .

Freight Stakeholders Coalition

- Inland Rivers Ports & Terminals Assoc.
- Waterfront Coalition
- Association of American Railroads
- American Trucking Assocs..
- US Chamber of Commerce
- National Assoc. of Manufacturers
- Intermodal Association of North America (IANA)
- International Mass Retailers Assoc.
- World Shipping Council
- Coalition for America’s Gateways and Trade Corridors.
- International Mass Retailers Assoc.
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Bottom Line

- World economic growth will remain robust in 2006, but will slow by year end. Enjoy it now.
- Emerging markets of Asia and Europe will experience the strongest growth; the Eurozone and Japan will lag behind.
- Enormous growth in container traffic within the next 5 years will push many ports to their full capacity limits.
- The key to competitiveness is to expand port and inland infrastructure and make it more efficient.
- If the Panama Canal is not expanded, the entry points may expand to Canada and Mexico.
- Latin America’s competitiveness starts, and ends, with efficient infrastructure to move the containers that are coming...and, they are coming!!!!!!
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