Logística e Infraestructura de Transporte: Clave de la Competitividad

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Agenda

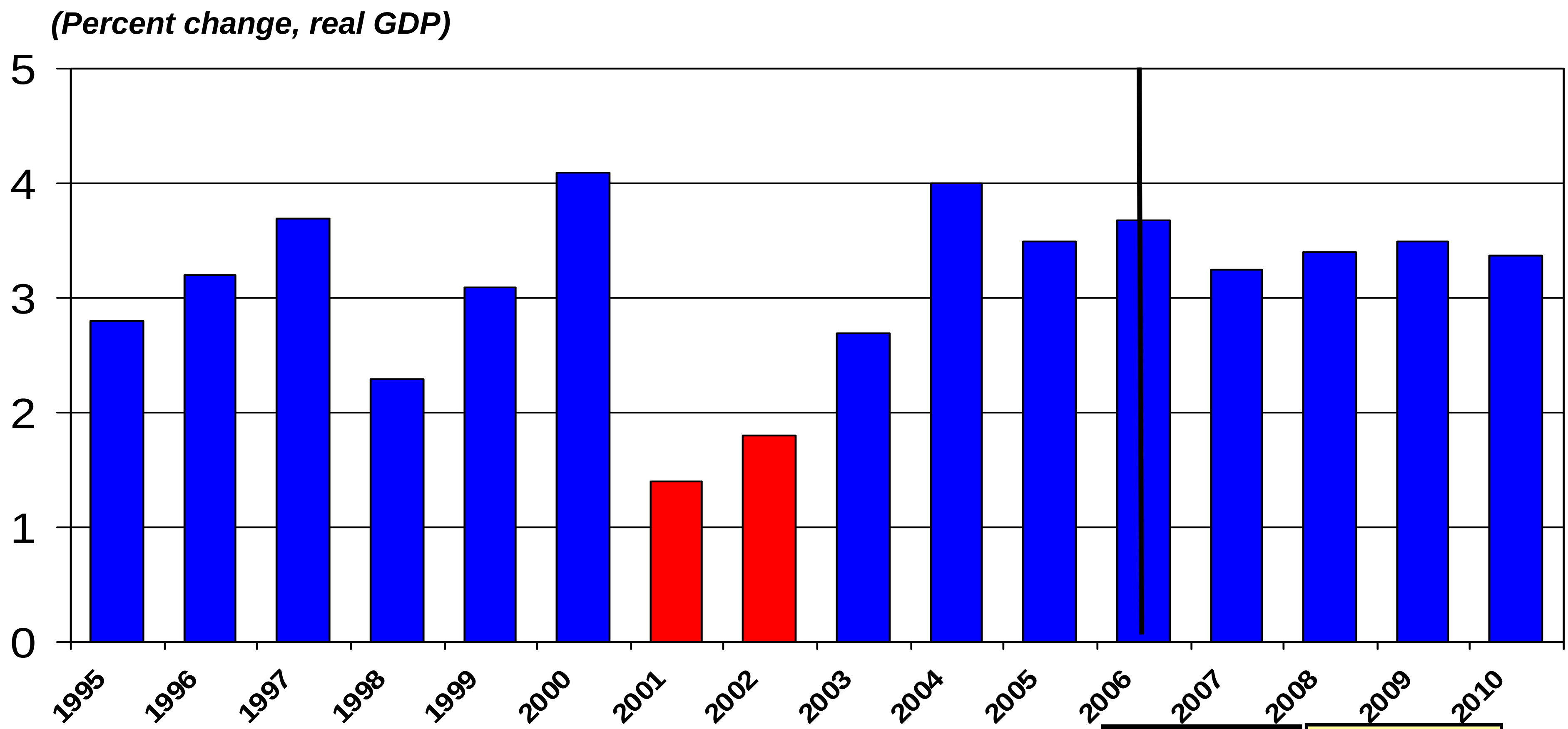
- **Global issues and trends affecting the world and U.S. economic outlooks**
- **Implications for sea trade in the U.S. and Latin America**
- **Are we ready – can we compete?**
- **Conclusions**

Key Global Issues and Trends

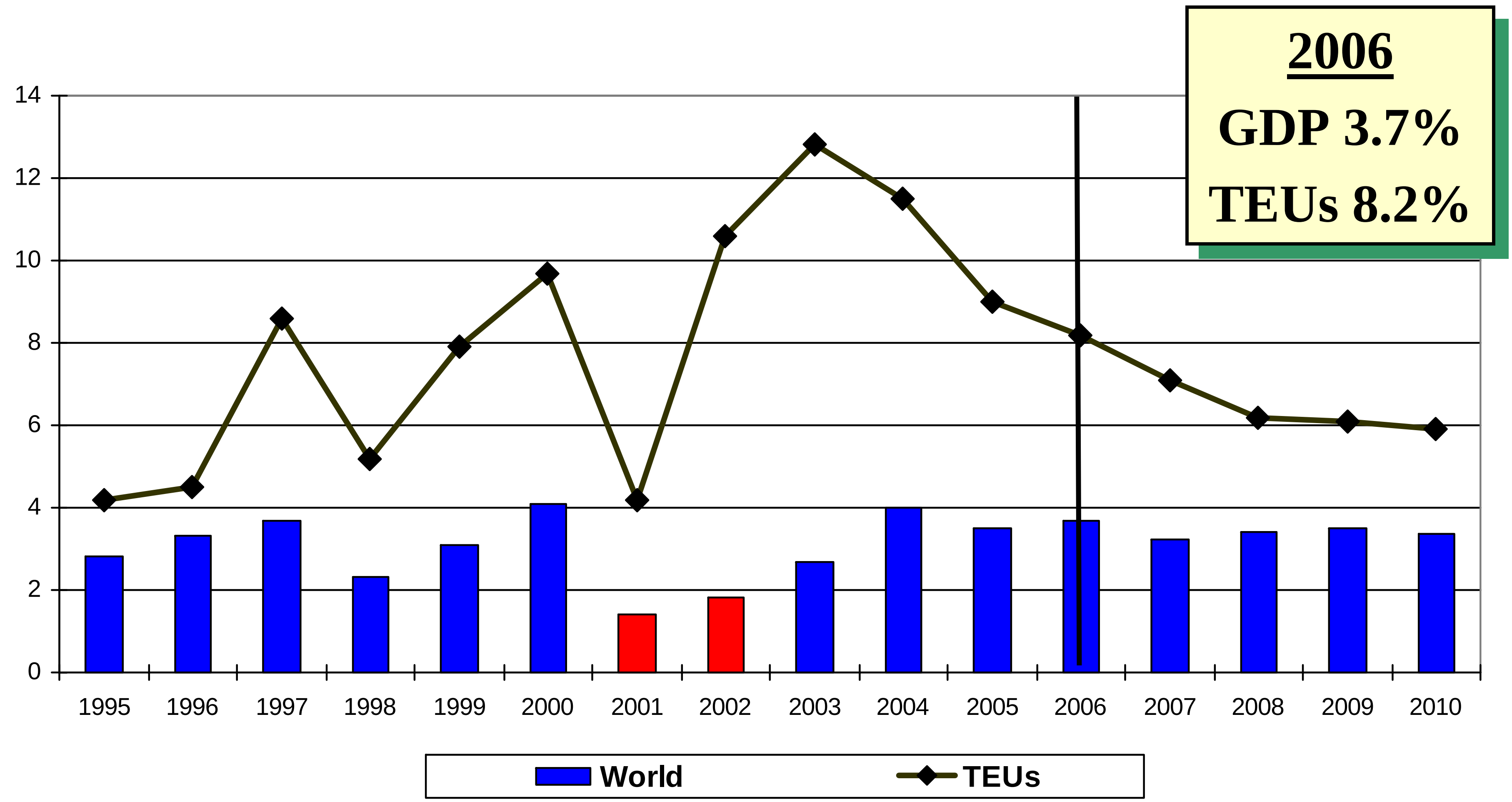
- **Will higher oil prices derail the recovery?** — **NO - Not at $70-75**
- **Will the dollar crash?** — **NO, but . . .**
- **China: Hard or soft landing?** — **SOFT**
- **New and important players?** — **YES, A FEW . . .**

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.

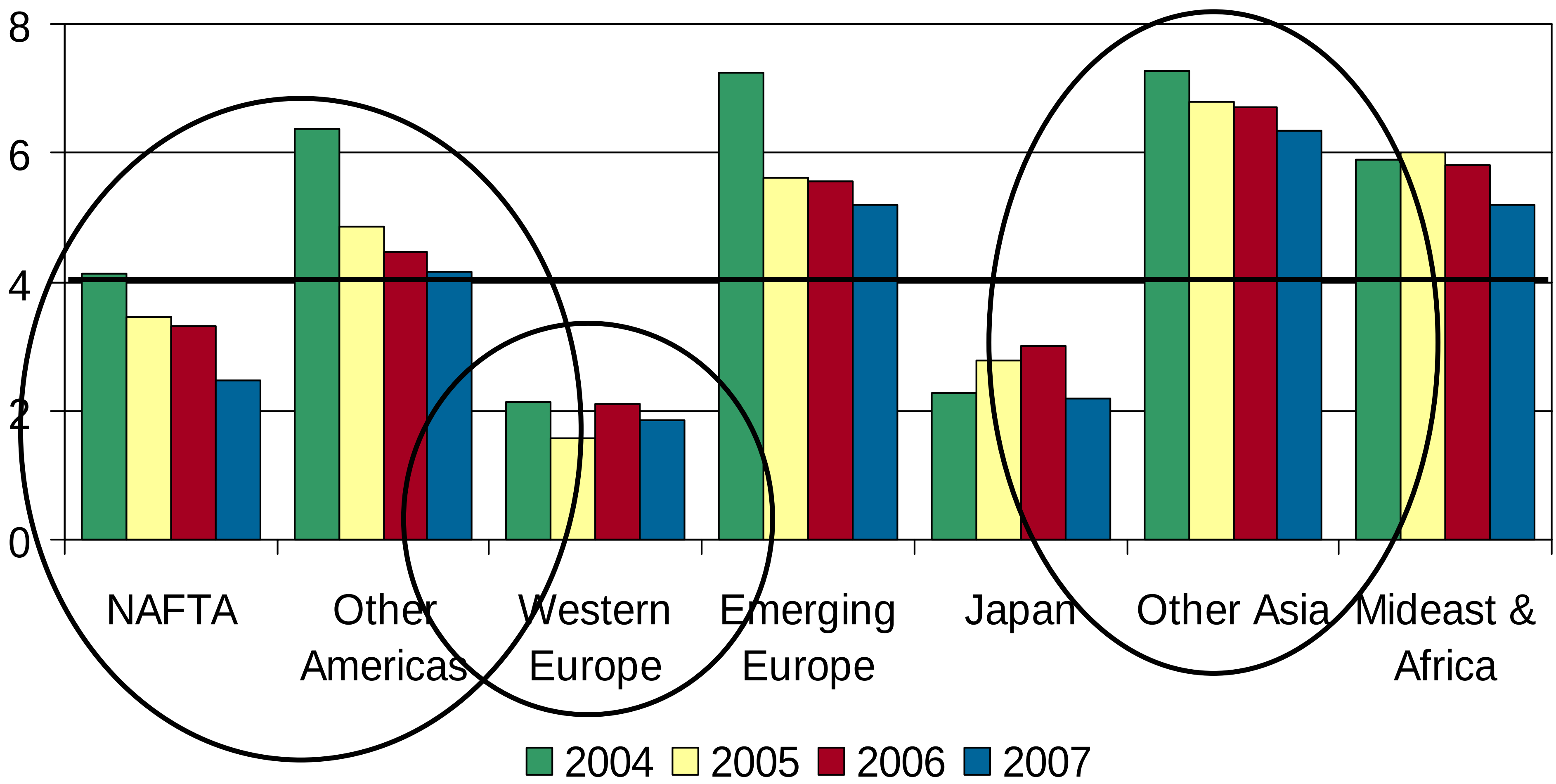


Trade growth is influenced by factors beyond the underlying demand for consumption goods.

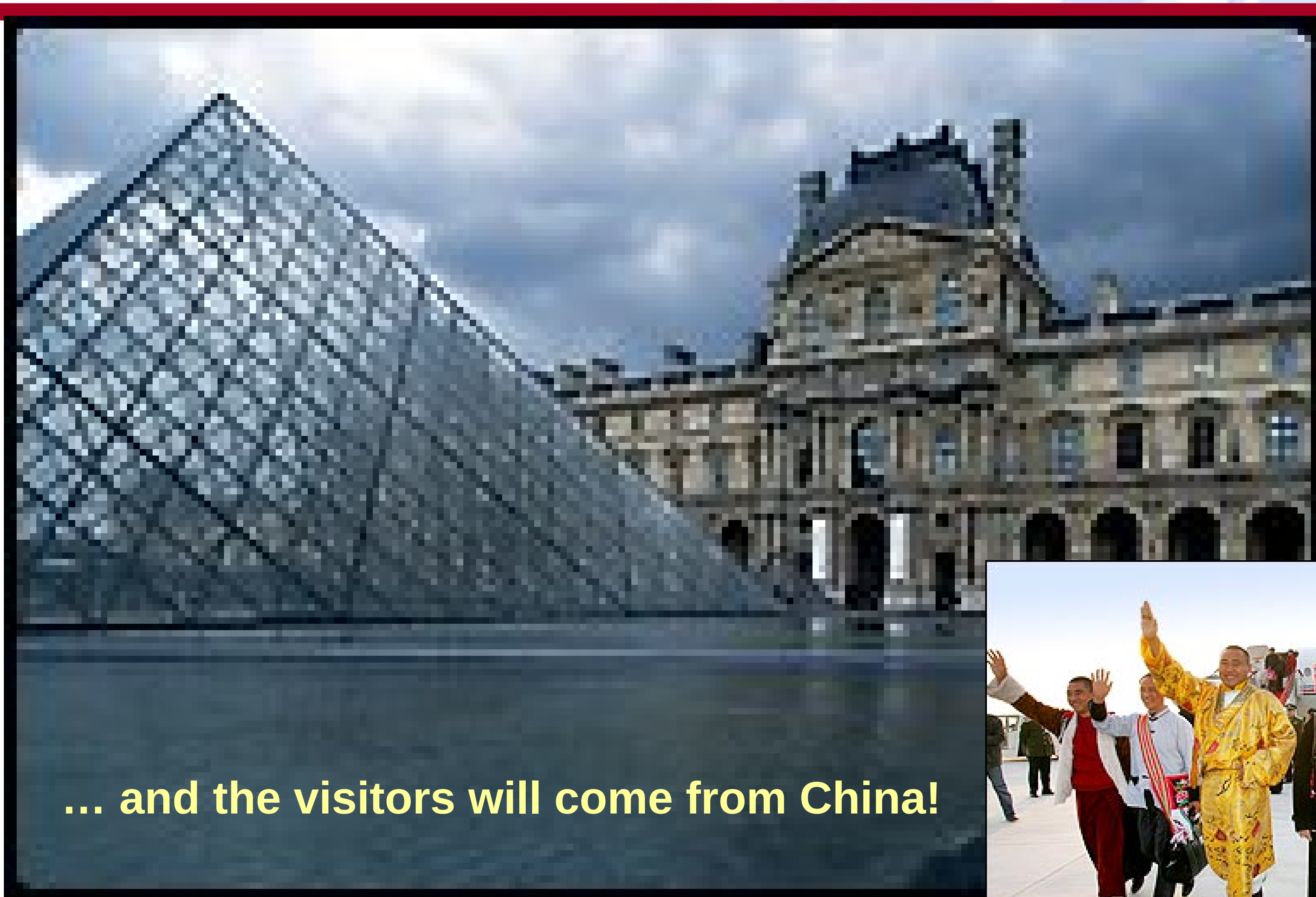
- **Global logistics sourcing by industry**
- **Emergence of global trading blocks**
- **Growth of regional trade facilitation**
- **Harmonization of trade and regulatory policies**
- **Trade security standards and information flows**
- **Increasing freight traffic and congestion along trade corridors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



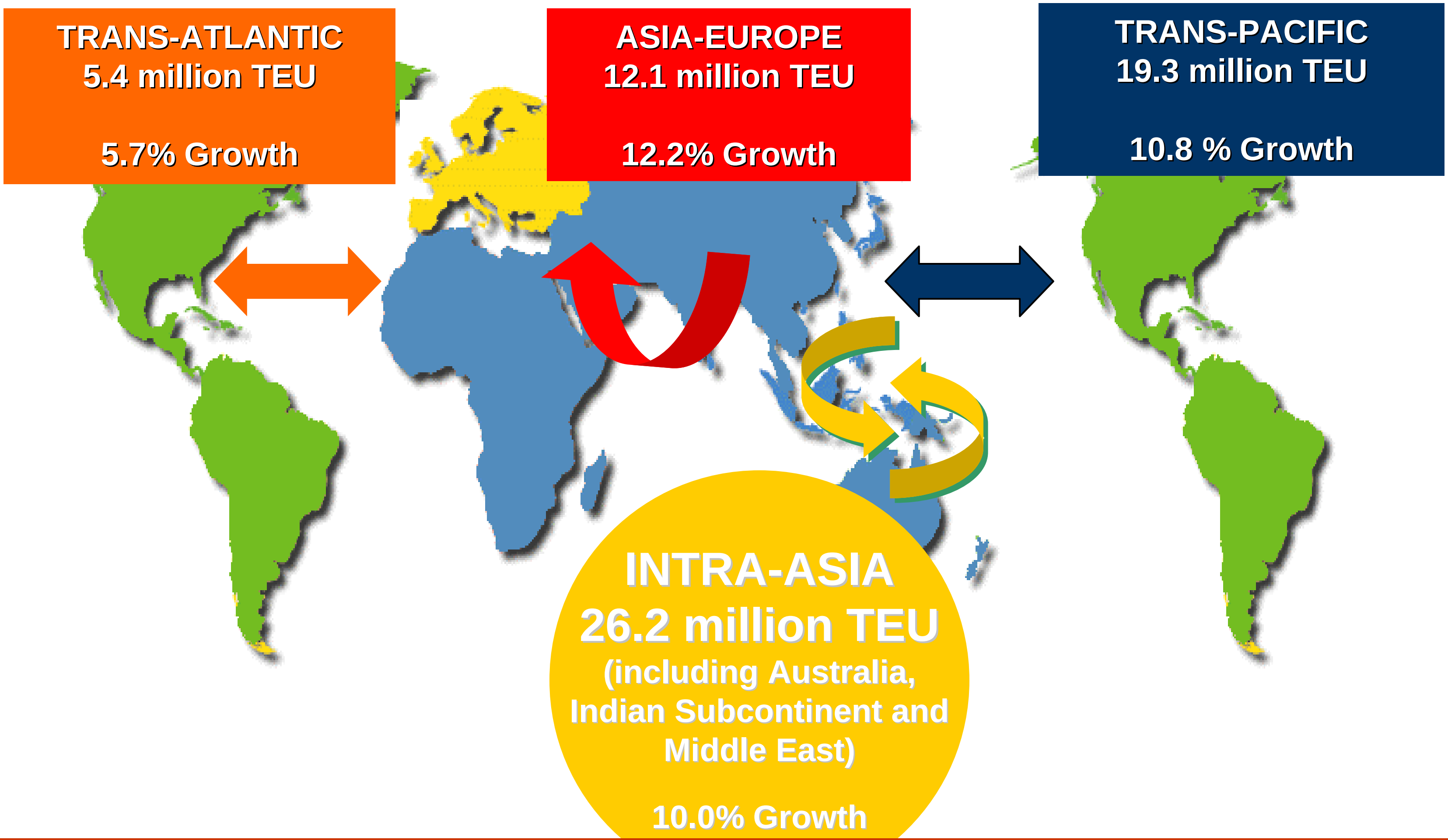
Growth is not uniform: Market shifts are coming and will affect U.S. trade and transportation

(Country GDP Rank in Billions of Real (2003) U.S. Dollars)

2000	2010	2020	2030	2040	2050
U.S.	U.S.	U.S.	U.S.	U.S.	China
Japan	Japan	China	China	China	U.S.
Germany	Germany	Japan	Japan	India	India
U.K.	U.K.	Germany	India	Japan	Japan
France	China	U.K.	Russia	Russia	Brazil
Italy	France	India	U.K.	Brazil	Russia
China	Italy	France	Germany	U.K.	U.K.
Brazil	India	Russia	France	Germany	Germany
India	Russia	Italy	Brazil	France	France
Russia	Brazil	Brazil	Italy	Italy	Italy

Source: Global Insight World Service

Asia is 2/3 of global container trade.



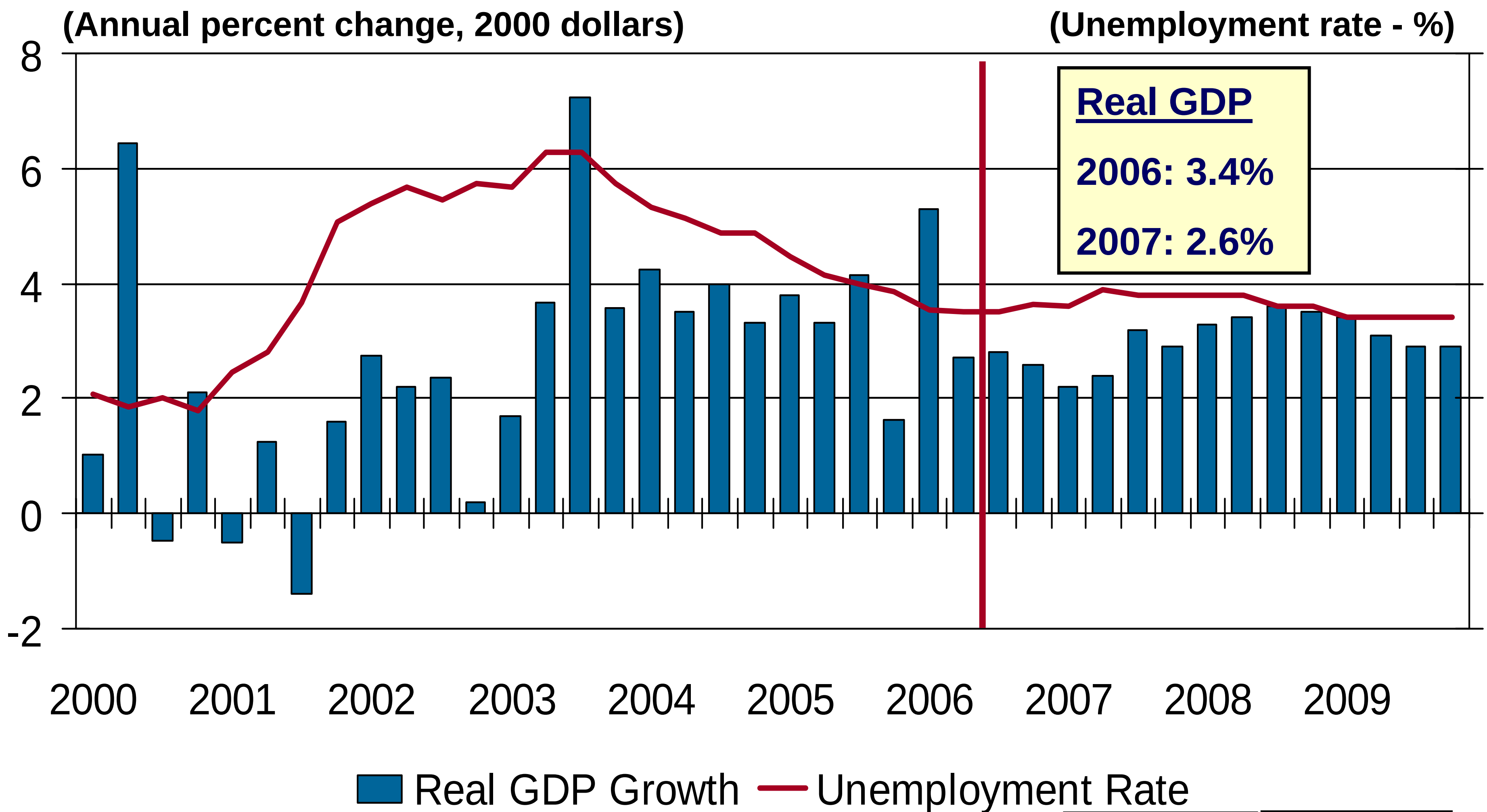
World Container Trade Flow 2005 E-W = 43% Intra Asia = 31%

The U.S. expansion is entering a new phase – a significant slowdown is here.

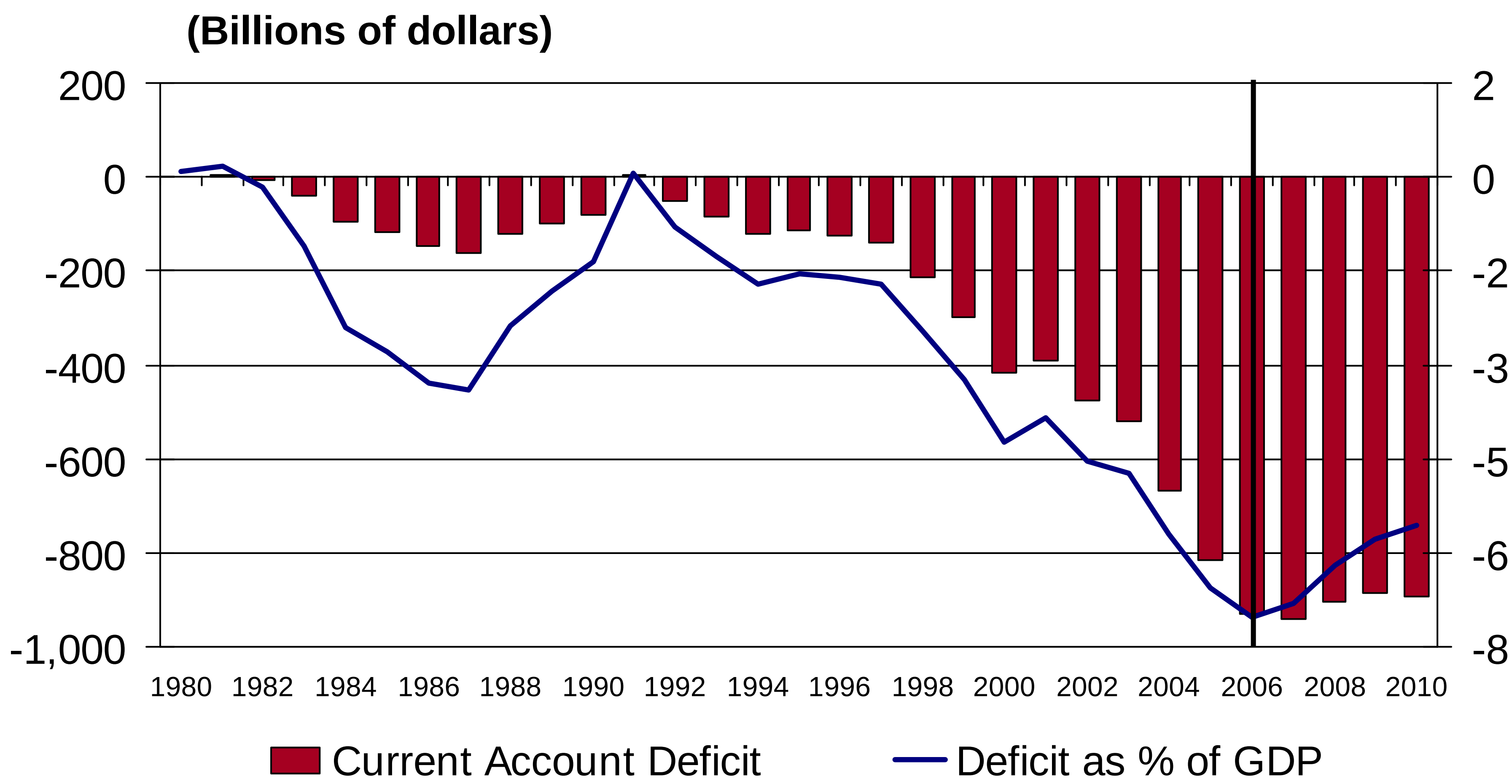
- **The U.S. economy had strong momentum entering 2006.**
  - **5.3% in the first quarter**
  - **Just 2.7% in the second!**
- **Consumer spending growth will slow in response to higher interest rates, high energy prices, and a weak housing market.**
- **Home sales and construction are declining as affordability 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

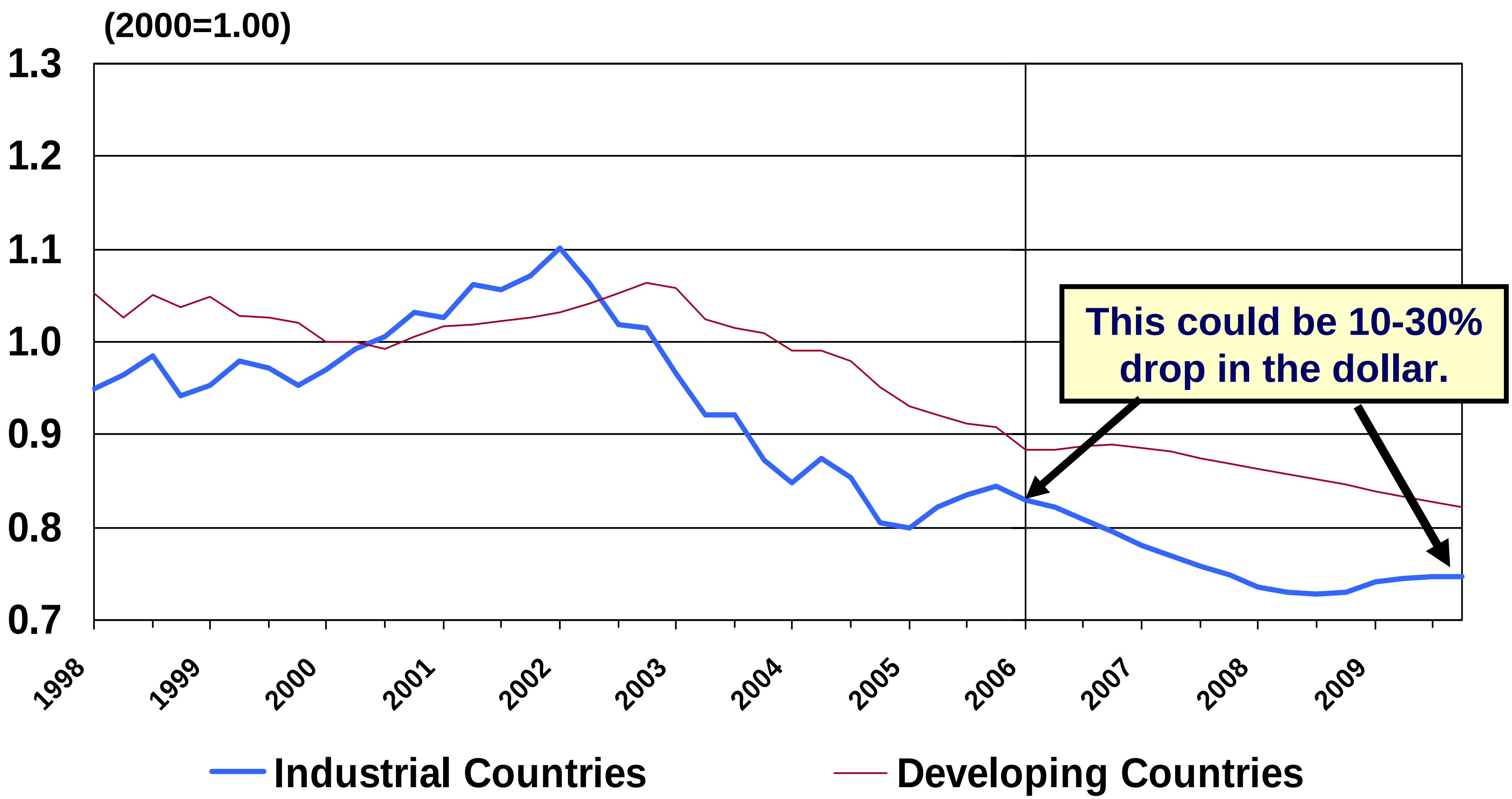
The U.S. economic expansion is slowing quickly.



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.**



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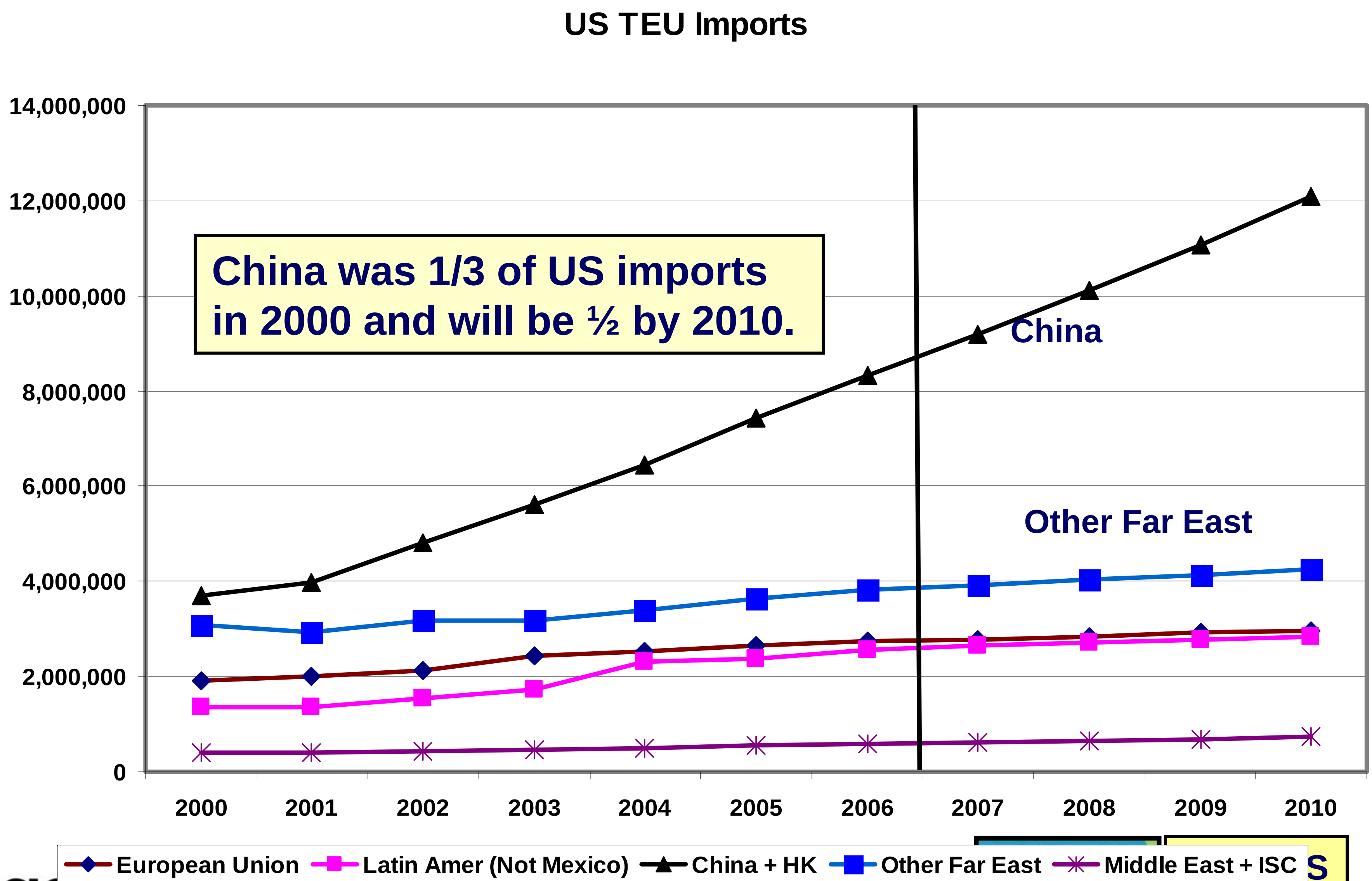
The U.S. <u>was</u> the engine of growth, but in 2006 this will shift to Asia. Asia is supporting world growth.

- **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.**

U.S. TEU imports will still grow by 8% in 2006, and by 6.2% in 2007. Chinese imports will grow fastest.



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

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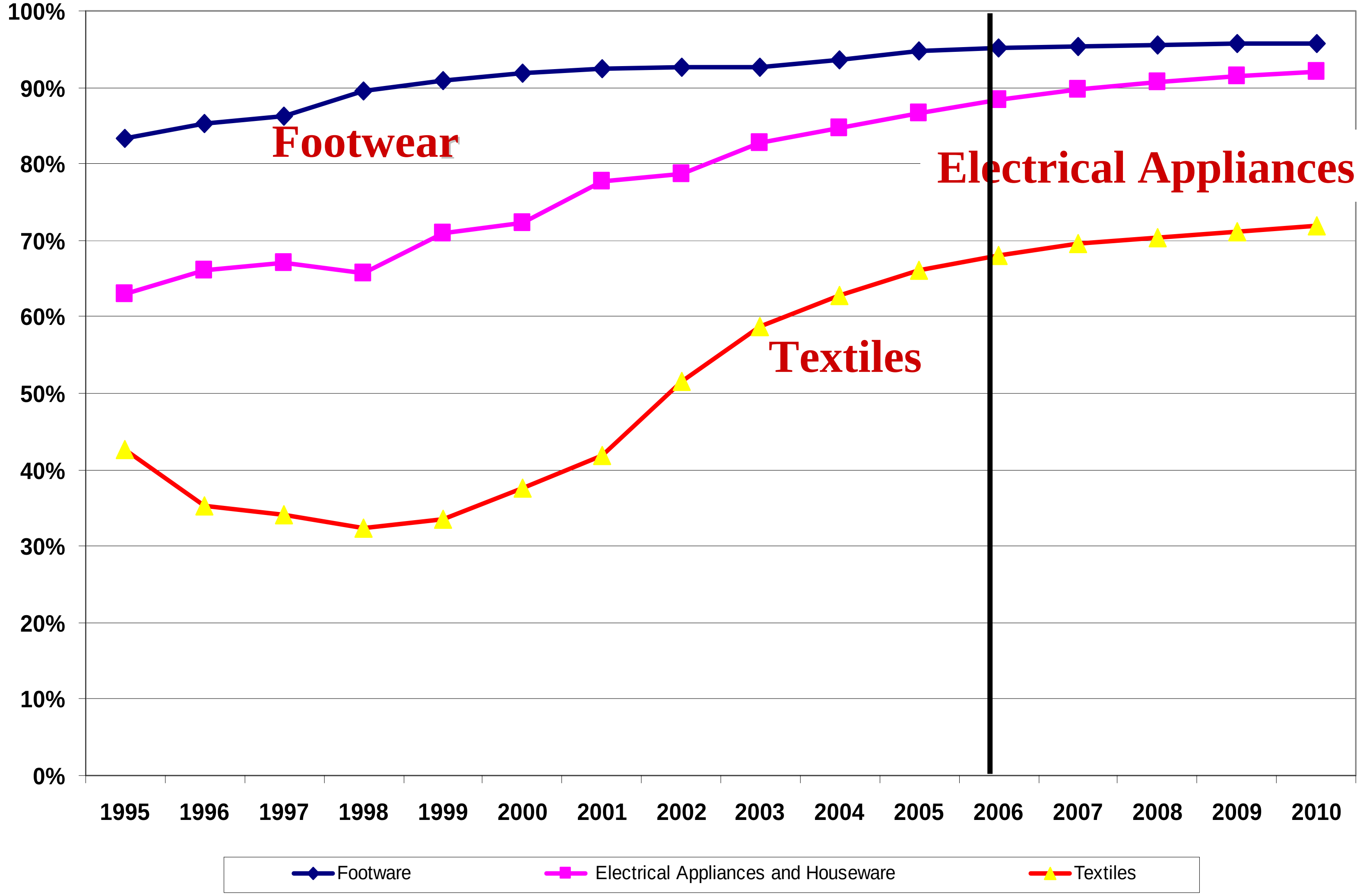
China's momentum is hard to slow down, but the government is trying - - - soft landing most likely.

	1980	2004
Real Per Capita GDP (2004$)	$171	$964
Real GDP as $ of US Level, 2004$	3%	14%
Real GDP growth in previous 20 years	5.3%	8.6%
Population (millions)	981	1,300
Trade's share of GDP	15%	85%
Number of Supermarkets	0	70,000
Current Account Surplus ($ billions)	1	266
Agriculture's share of GDP	30%	15%
Urbanization	20%	33%

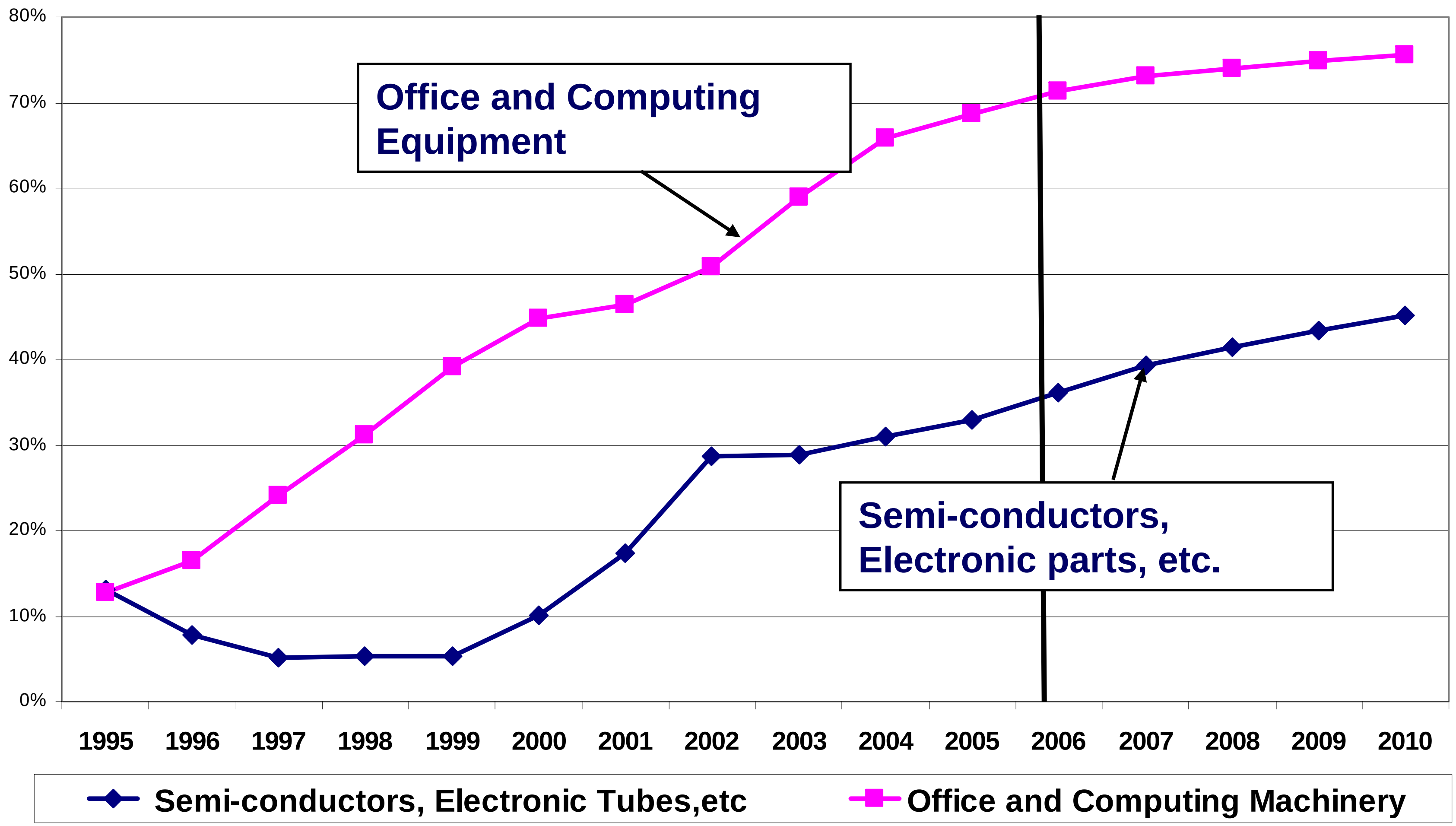
As China expands its markets, the U.S. becomes less important.

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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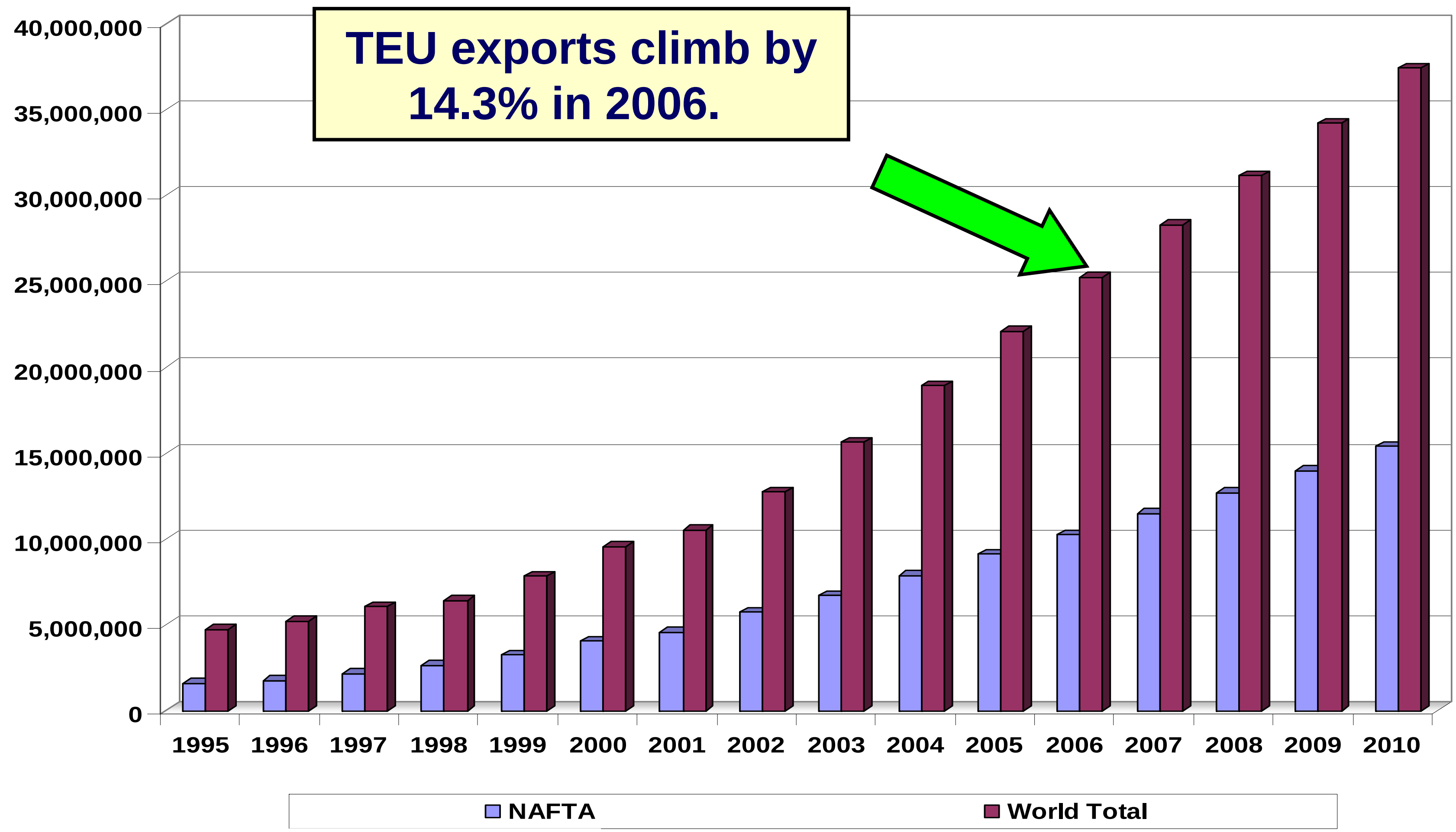
China's container exports continue to grow at double-digit rates – NAFTA's share has hit 45%.



Source: Global Insight World Trade Model

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Mexico joins China's million-TEU club

China/HK - Largest Export Markets

	2010	2006-10
United States	12,084,640	9.8%
Japan	3,778,186	9.1%
Mexico	2,798,144	15.5%
South Korea	1,862,507	11.4%
Germany	1,554,331	10.1%
United Kingdom	1,447,126	11.2%

Mexico already imports 1.5 million full TEUs from China (2006).

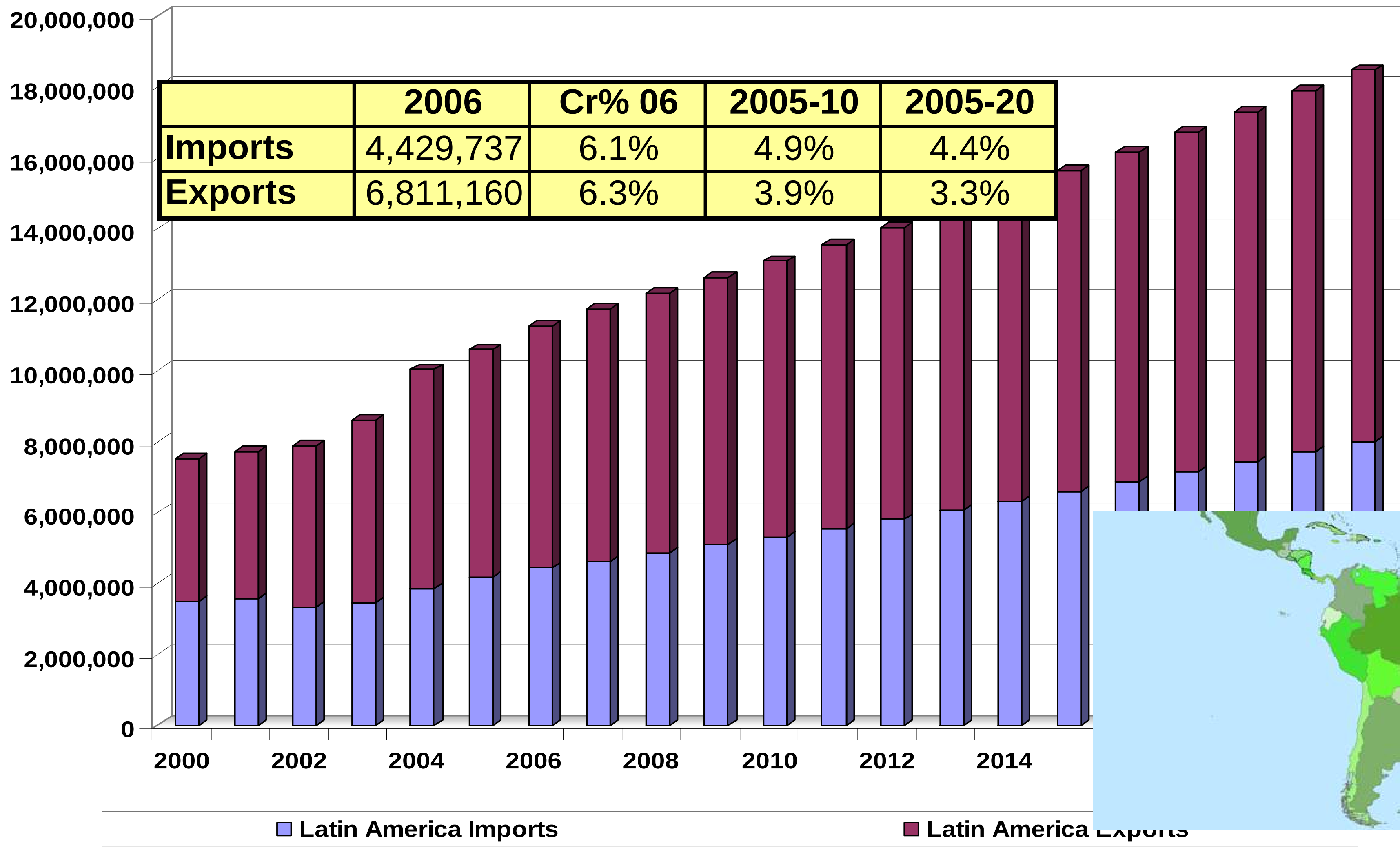
Mexico is the fastest-growing large market for China/HK. Is Mexico prepared for this?

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.

	2006	Cr% 06	2005-10	2005-20
Imports	4,429,737	6.1%	4.9%	4.4%
Exports	6,811,160	6.3%	3.9%	3.3%



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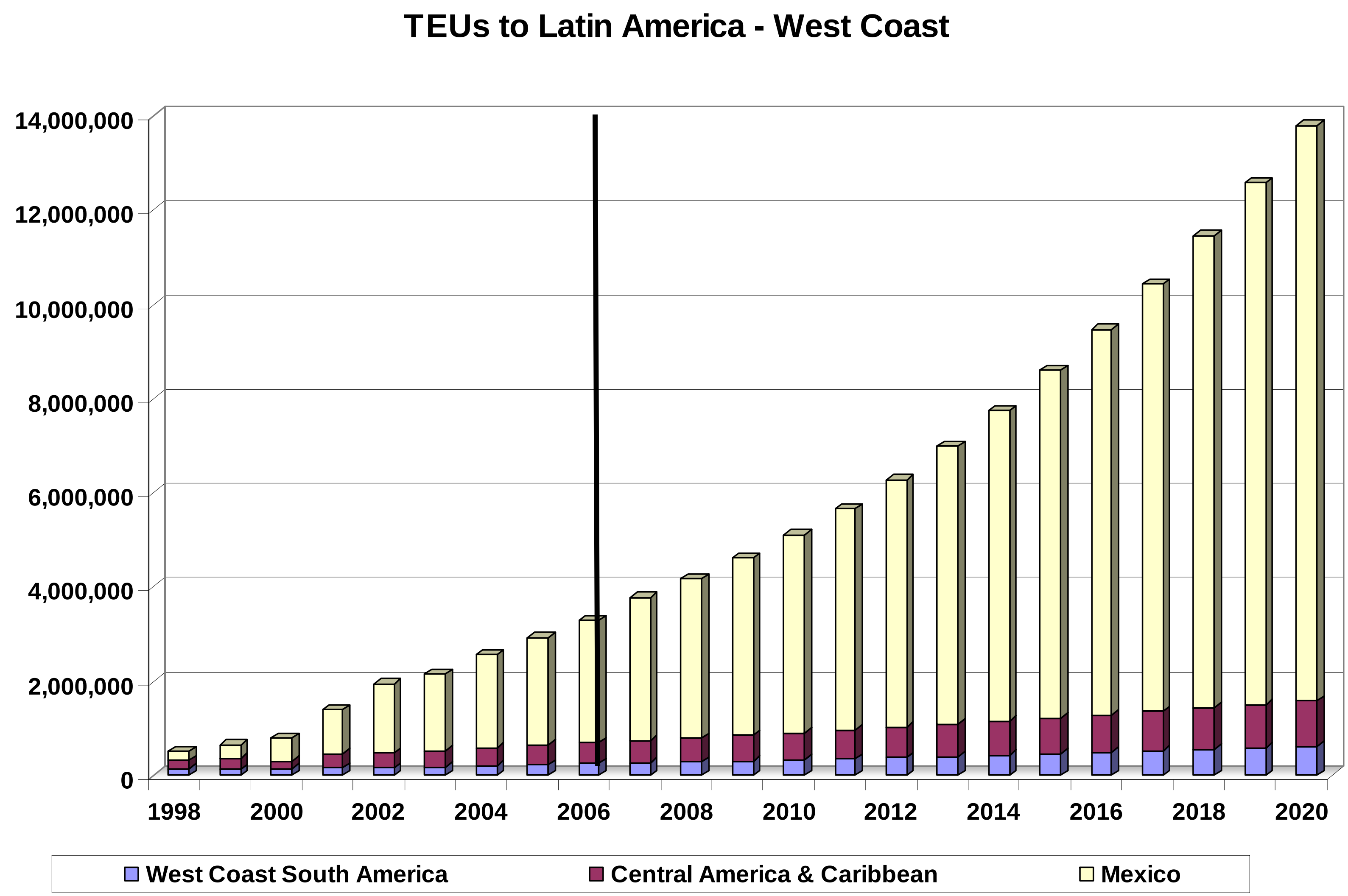
When Mexico is added, the growth is enormous in the future. Imports from the Far East – shown below.



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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

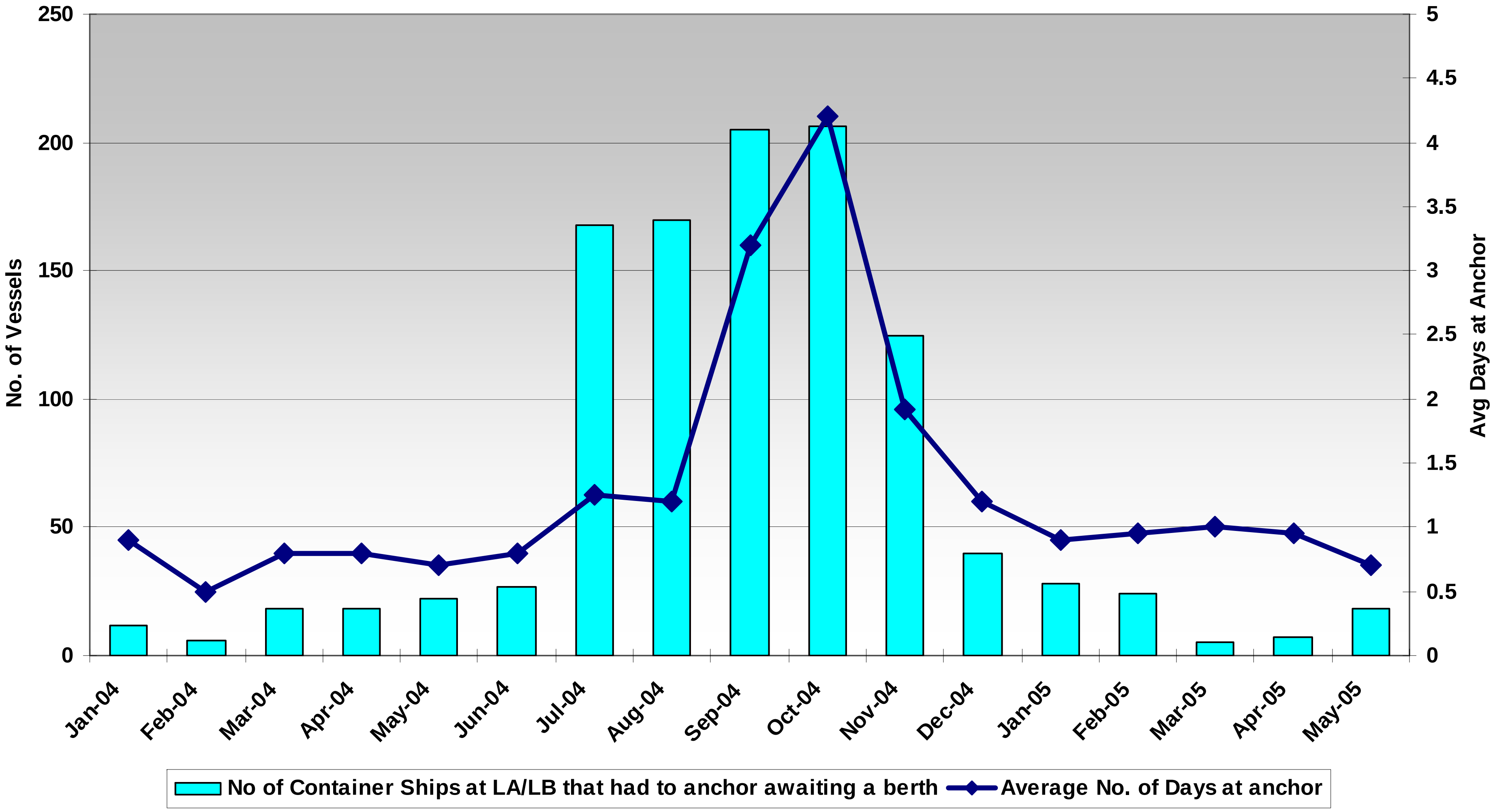
- **Open all the doors to trade –**
  - **The more open, the better**
- **The ports and inland infrastructure must be made more productive and expanded in some cases.**
- **Asian ports have increased productivity much faster than European or U.S. ports.**

TEUs/acre/year

	1999	2004	CAGR
Asian Ports	9,272	16,595	12.3%
European Ports	4,284	6,396	8.3%
U.S. Ports	2,894	4,018	6.8%

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

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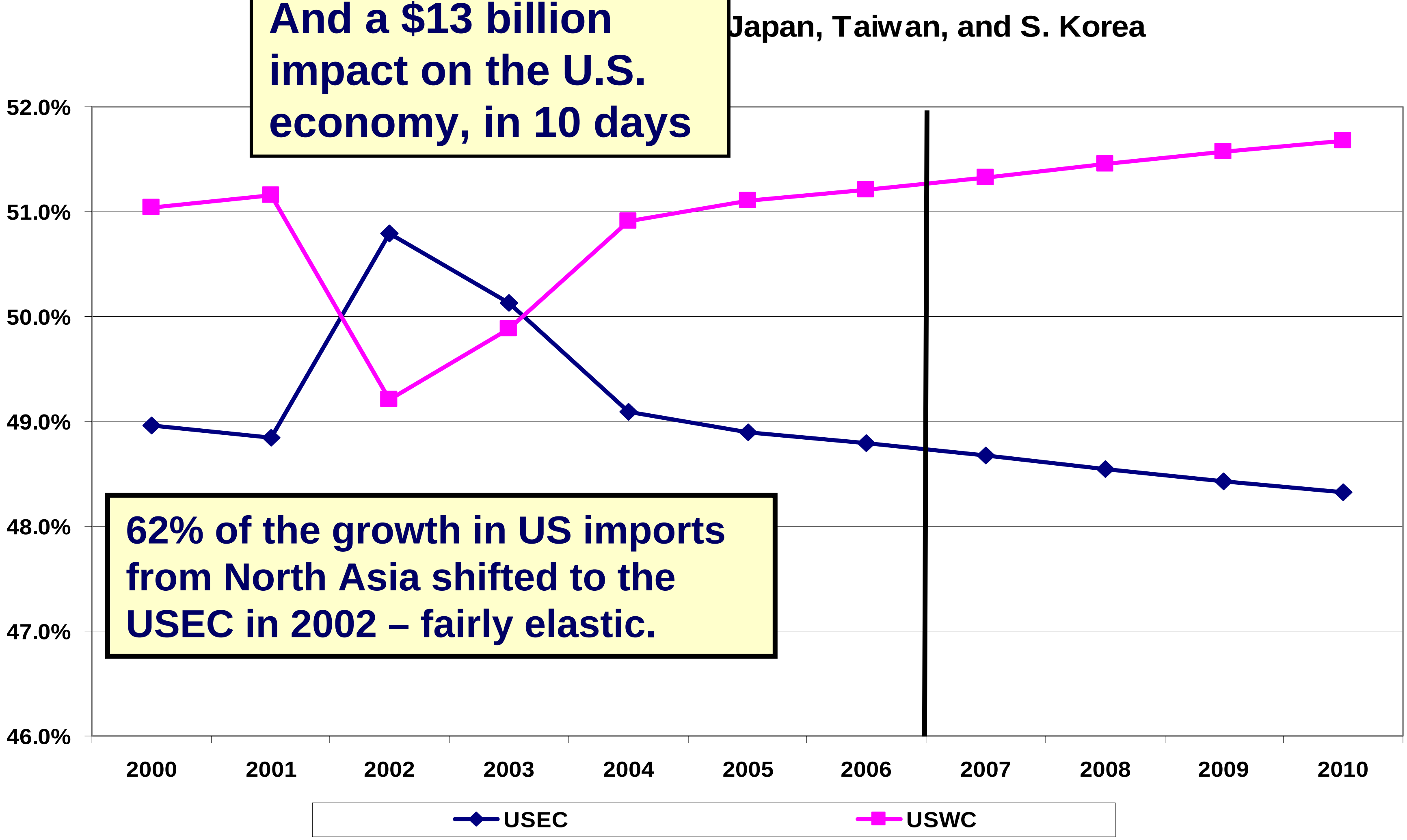
… a fast shift by carriers to alternate routes. Here, carriers shifted to the US East Coast through the Panama Canal.

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

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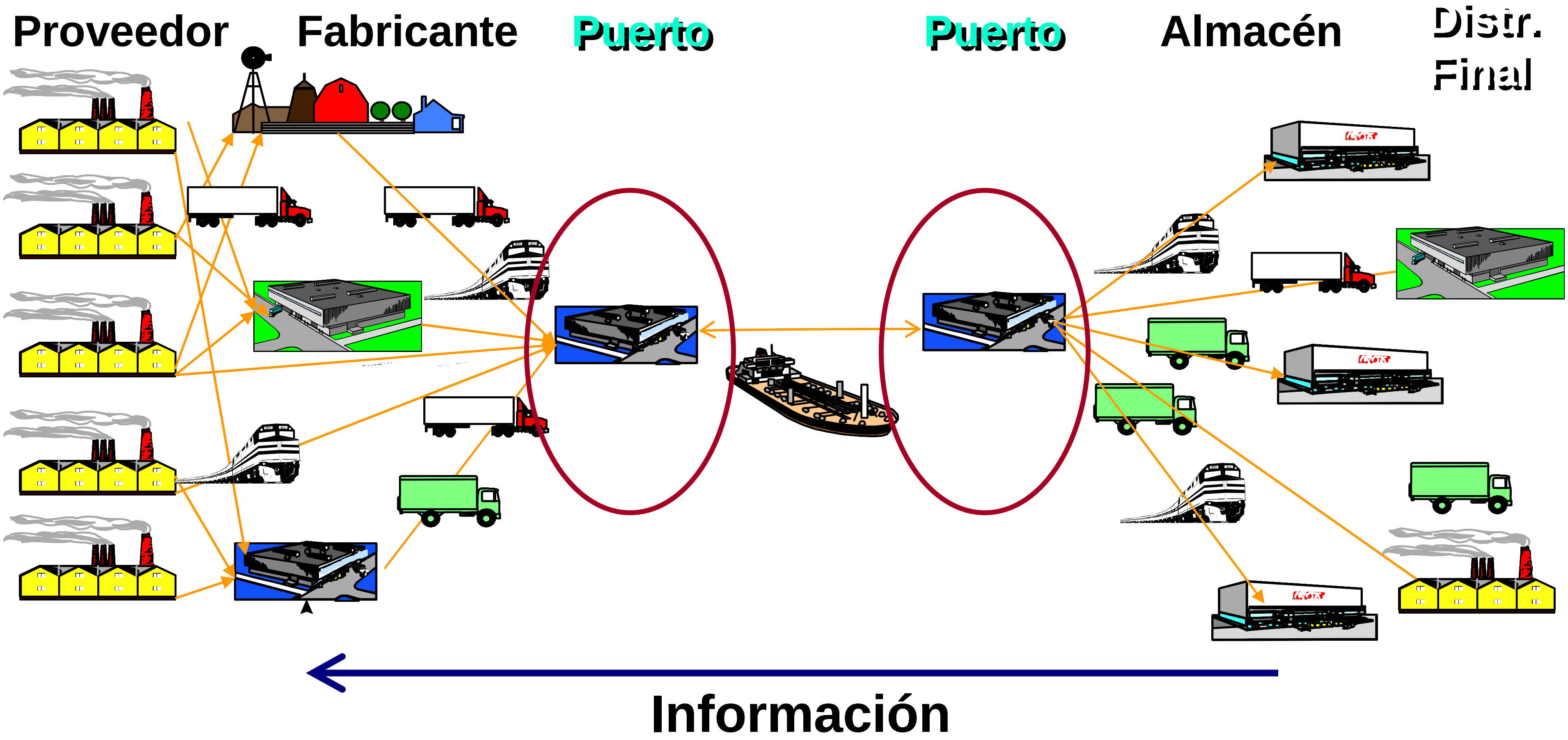
Ports are potential bottlenecks in the supply chain.



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 . . .

- Inland Rivers Ports & Terminals Assoc.
- Association of American Railroads
- Waterfront Coalition
- American Trucking Assocs..
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Freight Stakeholders Coalition

- US Chamber of Commerce
- World Shipping Council
- National Assoc. of Manufacturers
- International Mass Retailers Assoc.
- Intermodal Association of North America (IANA)
- Coalition for America's Gateways and Trade Corridors.

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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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