2010 Global Logistics Guide

The weight of the world recession was felt in equal measures this past year, shocking local economies and regional trades, and seismically shifting the way U.S. businesses spin and span the globe.

Contraction was widespread. Consumerism dropped, freight flows congealed, and imports, exports, and GDPs took precipitous dives. While the sting of the financial crisis was largely impartial, a global rebound will be anything but. Countries that have made transportation and logistics infrastructure a priority will spring to demand—and it to them—when trade returns.

Global expansion is increasingly complex as new markets open up and developing countries mature. Businesses are exploring secondary and tertiary sourcing strategies to reduce risk; balancing offshore and nearshore manufacturing points to manage lead times, reduce total landed costs, and increase market responsiveness; and they are looking at emerging markets where they can manufacture and sell.

Inbound Logistics' 6th annual Global Logistics Guide offers a reference as you evaluate new horizons for growth.

METHODOLOGY:

Countries are ranked on three criteria: Transportation Infrastructure (1 to 4 points), IT Competency (1 to 3 points), and Business Culture (1 to 3 points). Points are totaled for all categories—taking into consideration X-Factor +/- points—to determine final ranking: 10 is highest, 3 is lowest.

IL identifies global hotspots as excelling in three key areas:

1. **TRANSPORTATION INFRASTRUCTURE.** The density and breadth of airport, port, and road infrastructure.

2. **IT COMPETENCY.** The progressiveness of information and communication technology investment and development as measured by The World Economic Forum's Networked Readiness Index.

3. **BUSINESS CULTURE.** The strength of homegrown logistics talent, cultural and language similarities, government leadership, historical U.S. foreign direct investment outflow, and economic freedom.

This year's methodology adds a new wrinkle with the introduction of a Business Culture index. It includes cultural variables that appeal to U.S. businesses, as well as pro-business trends such as historical investment, future economic potential, and government leadership.

There are intangibles at play as well. Our X-Factor provision takes into account elements, such as political stability and labor availability, that may give businesses greater pause, or greater purpose, as they evaluate a country's logistics capabilities.

Our Global Logistics Guide offers a macro perspective of the global supply chain to help you quantify and qualify expansion opportunities with countries that best fit your logistics and supply chain needs. If you have questions or suggestions about our methodology and selections, please email: editor@inboundlogistics.com

Sources: U.S. Department of State; World Port Rankings, American Association of Port Authorities (AAPA); Airports Council International; World Economic Forum's Growth Competitiveness Index; World Economic Forum's Global Information Technology Report; Central Intelligence Agency's World Fact Book; Bureau of Economic Analysis, U.S. Direct Investment Abroad; 2010 Index of Economic Freedom, The Wall Street Journal & The Heritage Foundation.

The Americas

While the United States struggles to attract manufacturing, Mexico has become a magnet. The country's economic reformation is well underway and U.S. companies are quickly recognizing the economy of having a source spot close to demand. Location is Mexico's hallmark, especially as transportation development, logistics expertise, security, and IT connectivity catch up to speed.

Canada, by contrast, has much of what Mexico needs, but not enough of what makes Mexico interesting for U.S. businesses—demand-driven maquila distribution and low-cost labor.

In South America, Brazil's well-developed port infrastructure and proximity to the United States also make it appealing. But the region as a whole suffers from poor hinterland connectivity in terms of rail and road, which makes it difficult for foreign companies to capitalize on an abundance of labor in remote locations.

Further afield, Chile has made great strides curbing corruption and investing in technology, becoming South America's leader in that regard. But the recent earthquake will likely stifle short-term infrastructure investment beyond recovery efforts.

Canada

GDP:	$1,319
EXPORTS:	$299
IMPORTS:	$305
FDI 2008:	$227

SCORE **7**

T	I	B	X
2	3	3	-1

X-FACTOR: Pressures to keep U.S. manufacturing at home will never play into Canada's favor.

Mexico

GDP:	$866
EXPORTS:	$224
IMPORTS:	$235
FDI 2008:	$96

SCORE **6**

T	I	B	X
2	1	2	1

X-FACTOR: Investment in transportation infrastructure makes nearshoring a viable option for U.S. companies.

Chile

GDP:	$150
EXPORTS:	$49
IMPORTS:	$41
FDI 2008:	$13

SCORE **4**

T	I	B	X
1	2	2	-1

X-FACTOR: Despite great efforts developing IT infrastructure and reforming economic policies, the recent earthquake will be a major impediment to near-term growth.

Brazil

GDP:	$1,482
EXPORTS:	$159
IMPORTS:	$136
FDI 2008:	$46

SCORE **4**

T	I	B	X
2	1	1	0

After Mexico, Brazil is the next likely nearshore manufacturing location for U.S. businesses. But transportation infrastructure still lags beyond the country's developed coastline.

FDI: U.S. Foreign Direct Investment, 2008
T: Transportation Infrastructure
I: IT Competency
B: Business Culture
X: X-Factor

All amounts in $US billions.

Europe

Apart from the Asian continent, Europe has the most container ports among the world's top 50, which given its relative scale, is why infrastructure densification ranks the best in the world. Germany, the Netherlands, and Belgium earn top scores for transportation as they have a full complement of air, ocean, road, and rail resources—and the logistics pedigree to connect modes. It's partly why Germany and the Netherlands are the top two U.S. foreign investment destinations besides Canada.

Short-sea shipping has always been a strong suit for Europe simply because it needs to be. Road congestion and intra-Europe rail inconsistencies are recurring concerns. Emerging release valves in the south (Italy), east (Poland and Estonia), and through Switzerland's much-anticipated Alptransit Gotthard Base Tunnel, forecast even greater expansion on the continent's periphery.

Given Europe's cultural diversity, its primary challenge remains aligning national interests into a collective whole, breaking down political and economic barriers, privatizing transportation, and balancing progressive social democratic agendas with policies that incent foreign investment. Rigid labor laws, for example, do little to attract heavy process industry.

Of greater concern for Europe at large is the continuing assimilation of newer European Union entrants, their development, and the long-term stability of the euro—which could ultimately threaten manufacturing activity in the region.

Belgium

GDP:	$462
EXPORTS:	$296
IMPORTS:	$315
FDI 2008:	$65

SCORE **8**

T	I	B	X
4	2	2	0

Between Antwerp, Liege, and Brussels, Belgium has air and ocean transport covered–which is important because it depends so heavily on export trade.

France

GDP:	$2,635
EXPORTS:	$457
IMPORTS:	$532
FDI 2008:	$75

SCORE **8**

T	I	B	X
3	3	2	0

France's transition to a more privatized free market economy has amplified its well-developed transportation footprint. Still, labor rigidity and tax burdens make some investors wary.

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All amounts in $US billions.

Netherlands

GDP:	$790
EXPORTS:	$398
IMPORTS:	$359
FDI 2008:	$443

SCORE 9

T	I	B	X
4	3	3	-1

X-FACTOR: Congestion is a concern that forced legislators into passing a new driving tax. Recent political tension within the Dutch government over troop deployment to Afghanistan is another source of friction.

Germany

GDP:	$3,235
EXPORTS:	$1,187
IMPORTS:	$1,022
FDI 2008:	$111

SCORE 9

T	I	B	X
4	3	2	0

Germany's transportation infrastructure and wealth of expertise—DB Schenker, SAP, Deutsche Post DHL, Lufthansa Cargo—make it a top logistics hotspot.

Italy

GDP:	$2,090
EXPORTS:	$369
IMPORTS:	$359
FDI 2008:	$29

SCORE 5

T	I	B	X
2	1	1	1

X-FACTOR: Italy's Port of Gioia Tauro ranks fifth in Europe in terms of container volume.

Switzerland

GDP:	$484
EXPORTS:	$190
IMPORTS:	$177
FDI 2008:	$123

SCORE 7

T	I	B	X
1	3	3	0

Switzerland's pro-business climate makes it a hot market for investment and expansion despite a lack of major transportation hubs.

Eastern Europe/ Russia

Eastern Europe and Russia are the great unknowns for U.S. companies exploring offshore locations. The area as a whole holds great promise, largely because investment to date has been minimal. Poland and Estonia are new entrants to the European Union, so integration is still a work in progress. Both countries are strategically positioned as gateways between central Europe's established commercial centers and Russia's expanse. As European manufacturing chases low-cost labor east, Estonia, Poland, and Russia come into play.

Both Poland and Estonia have strong economic ties with Germany and have pursued policies of liberalization to drive their economies forward. Russia, by contrast, remains a laggard in transportation infrastructure development, which has been exacerbated by its dependence on oil exports and the volatility of that market.

As a consequence of the global recession, near-term investment will be stifled. But there are still signs of opportunity. Russia is a necessary part of an emerging land bridge between Asia and Europe and an intermodal pipeline linking the two continents could stimulate transportation infrastructure development that supports new manufacturing and distribution growth.

Estonia

GDP: $18
EXPORTS: $9
IMPORTS: $9
FDI 2008: $0.16

SCORE 5

T	I	B	X
1	3	2	-1

X-FACTOR: U.S. FDI dropped precipitously over the last reporting period, from an all-time high of $32 million in 2007 to $16 million in 2008.

Poland

GDP: $423
EXPORTS: $135
IMPORTS: $142
FDI 2008: $16

SCORE 5

T	I	B	X
1	2	2	0

A recent EU entrant, Poland has made a swift transition in liberalizing its economy. Siphoning production from Germany, the country's manufacturing sector continues to grow.

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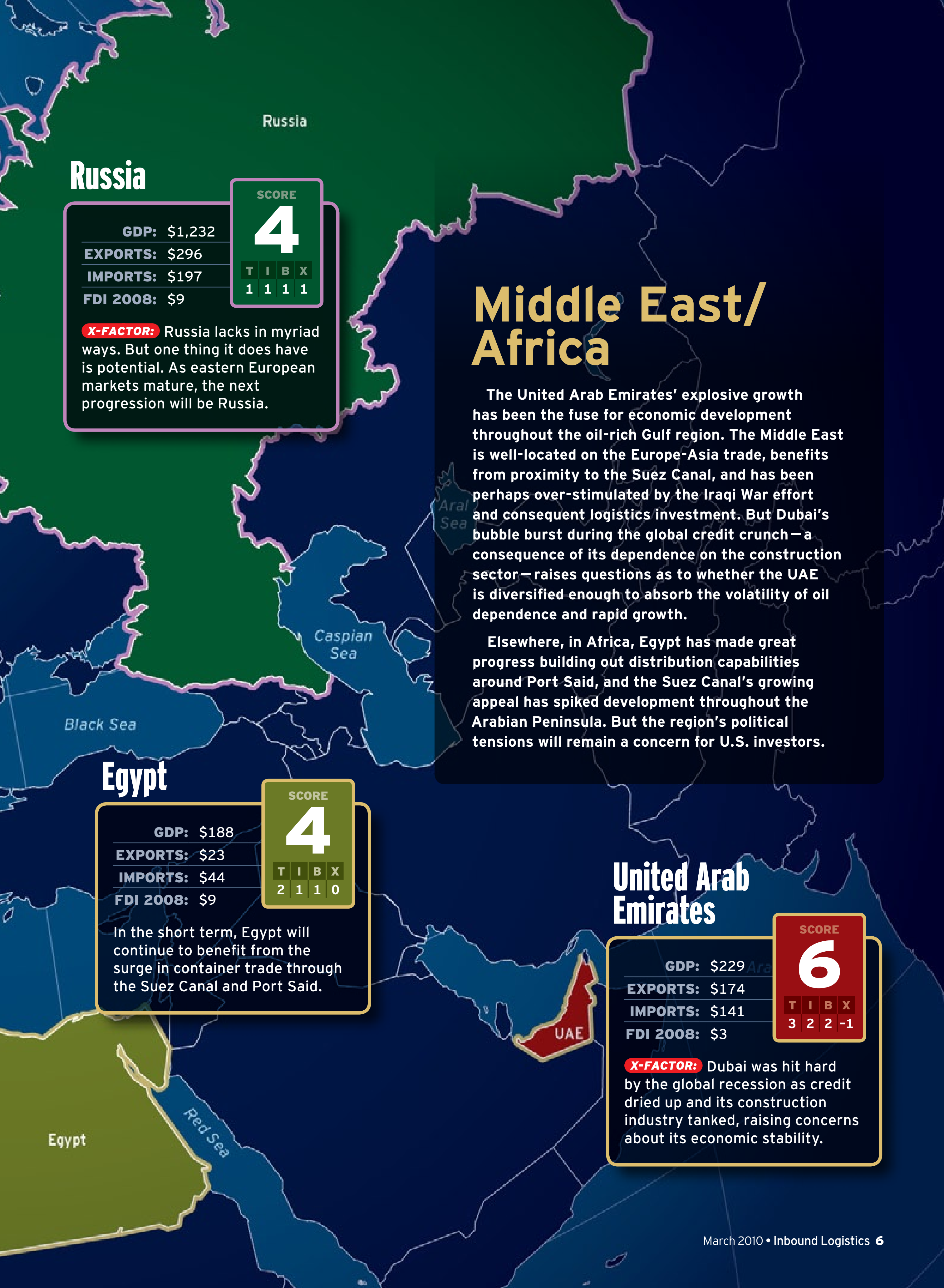


Middle East/ Africa

The United Arab Emirates' explosive growth has been the fuse for economic development throughout the oil-rich Gulf region. The Middle East is well-located on the Europe-Asia trade, benefits from proximity to the Suez Canal, and has been perhaps over-stimulated by the Iraqi War effort and consequent logistics investment. But Dubai's bubble burst during the global credit crunch—a consequence of its dependence on the construction sector—raises questions as to whether the UAE is diversified enough to absorb the volatility of oil dependence and rapid growth.

Elsewhere, in Africa, Egypt has made great progress building out distribution capabilities around Port Said, and the Suez Canal's growing appeal has spiked development throughout the Arabian Peninsula. But the region's political tensions will remain a concern for U.S. investors.

Russia

GDP:	$1,232
EXPORTS:	$296
IMPORTS:	$197
FDI 2008:	$9

SCORE 4

T	I	B	X
1	1	1	1

X-FACTOR: Russia lacks in myriad ways. But one thing it does have is potential. As eastern European markets mature, the next progression will be Russia.

Egypt

GDP:	$188
EXPORTS:	$23
IMPORTS:	$44
FDI 2008:	$9

SCORE 4

T	I	B	X
2	1	1	0

In the short term, Egypt will continue to benefit from the surge in container trade through the Suez Canal and Port Said.

United Arab Emirates

GDP:	$229
EXPORTS:	$174
IMPORTS:	$141
FDI 2008:	$3

SCORE 6

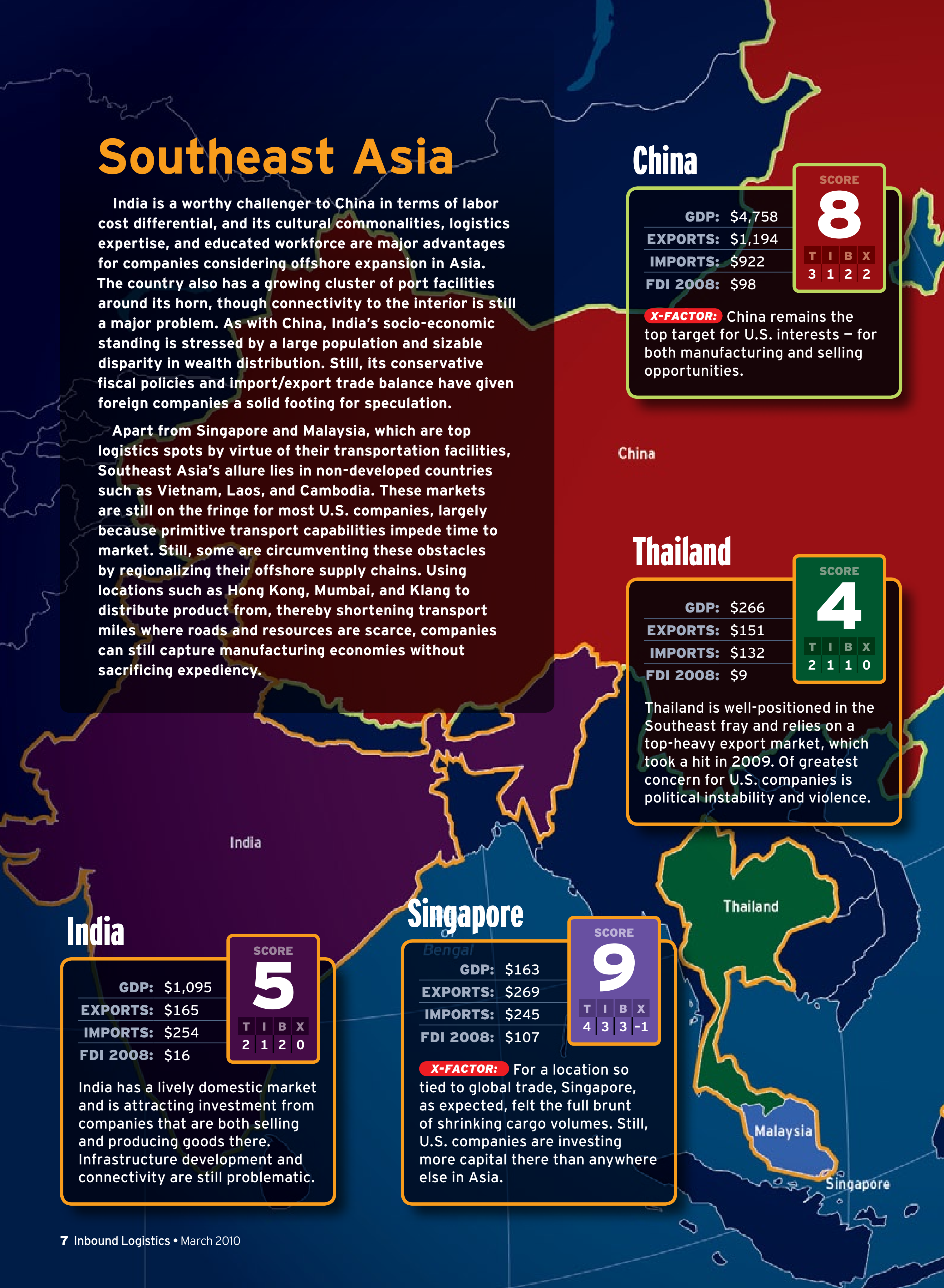
T	I	B	X
3	2	2	-1

X-FACTOR: Dubai was hit hard by the global recession as credit dried up and its construction industry tanked, raising concerns about its economic stability.

Southeast Asia

India is a worthy challenger to China in terms of labor cost differential, and its cultural commonalities, logistics expertise, and educated workforce are major advantages for companies considering offshore expansion in Asia. The country also has a growing cluster of port facilities around its horn, though connectivity to the interior is still a major problem. As with China, India's socio-economic standing is stressed by a large population and sizable disparity in wealth distribution. Still, its conservative fiscal policies and import/export trade balance have given foreign companies a solid footing for speculation.

Apart from Singapore and Malaysia, which are top logistics spots by virtue of their transportation facilities, Southeast Asia's allure lies in non-developed countries such as Vietnam, Laos, and Cambodia. These markets are still on the fringe for most U.S. companies, largely because primitive transport capabilities impede time to market. Still, some are circumventing these obstacles by regionalizing their offshore supply chains. Using locations such as Hong Kong, Mumbai, and Klang to distribute product from, thereby shortening transport miles where roads and resources are scarce, companies can still capture manufacturing economies without sacrificing expediency.



China

GDP:	$4,758
EXPORTS:	$1,194
IMPORTS:	$922
FDI 2008:	$98

SCORE **8**

T	I	B	X
3	1	2	2

X-FACTOR: China remains the top target for U.S. interests – for both manufacturing and selling opportunities.

Thailand

GDP:	$266
EXPORTS:	$151
IMPORTS:	$132
FDI 2008:	$9

SCORE **4**

T	I	B	X
2	1	1	0

Thailand is well-positioned in the Southeast fray and relies on a top-heavy export market, which took a hit in 2009. Of greatest concern for U.S. companies is political instability and violence.

India

GDP:	$1,095
EXPORTS:	$165
IMPORTS:	$254
FDI 2008:	$16

SCORE **5**

T	I	B	X
2	1	2	0

India has a lively domestic market and is attracting investment from companies that are both selling and producing goods there. Infrastructure development and connectivity are still problematic.

Singapore

GDP:	$163
EXPORTS:	$269
IMPORTS:	$245
FDI 2008:	$107

SCORE **9**

T	I	B	X
4	3	3	-1

X-FACTOR: For a location so tied to global trade, Singapore, as expected, felt the full brunt of shrinking cargo volumes. Still, U.S. companies are investing more capital there than anywhere else in Asia.

Japan

GDP:	$5,049
EXPORTS:	$516
IMPORTS:	$491
FDI 2008:	$79

SCORE 8

T	I	B	X
4	3	2	-1

X-FACTOR: The global downturn and Toyota's most recent mass recall has deflated Japan's automotive industry.

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Korea

GDP:	$800
EXPORTS:	$355
IMPORTS:	$313
FDI 2008:	$28

SCORE 7

T	I	B	X
3	3	1	0

Korea is a center for high-tech manufacturing and has a wealth of transportation resources. But North Korea's instability is always cause for concern.

Taiwan

GDP:	$357
EXPORTS:	$198
IMPORTS:	$173
FDI 2008:	$17

SCORE 8

T	I	B	X
3	3	2	0

While Taiwan's diplomatic status is still muddled, the country has been working collaboratively with China to expand its trade – which could bode well for foreign investment.

Malaysia

GDP:	$207
EXPORTS:	$156
IMPORTS:	$120
FDI 2008:	$13

SCORE 6

T	I	B	X
3	2	1	0

Like Singapore, Malaysia is largely dependent on export trade but its transportation hubs in Port Klang, Tanjung Pelepas, and Kuala Lumpur are major attractions.

Asia

Between Japan's production legacy and China's manufacturing hegemony, Asia's footprint is well fixed. In the middle, literally, Taiwan and South Korea have become legitimate suitors for U.S. investment.

China's appetite for infrastructure is bottomless. Every year the country introduces a new wave of ports to its rotation. This year alone it touts 17 facilities among the world's Top 50 tonnage ports. Last year there were nine.

By contrast, Japan, South Korea, and Taiwan are saturated with development and limited by geographic constraints, which has forced them to direct attention toward R&D and high-tech manufacturing. Japan's automotive sector continues to show cracks as a result of global competition, slack consumer spending, and a recent spate of product recalls. South Korea's instability lies due north, while Taiwan's political identity and export trade are inherently tied to China. All three countries face an emerging labor shortage as cultural mores shrink the workforce.

In terms of labor and leadership, China has no equal. When demand for exports dried up, the government responded by stimulating domestic spending and consumption—giving U.S. manufacturers and retailers further incentive to tap a booming middle class market. But China does face challenges. Growing logistics talent, addressing ethical criticisms and labor unrest, linking more remote manufacturing pockets to coastal hubs, and increasing competition from Southeast Asia are outstanding concerns.