A SPECIAL
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INBOUND LOGISTICS

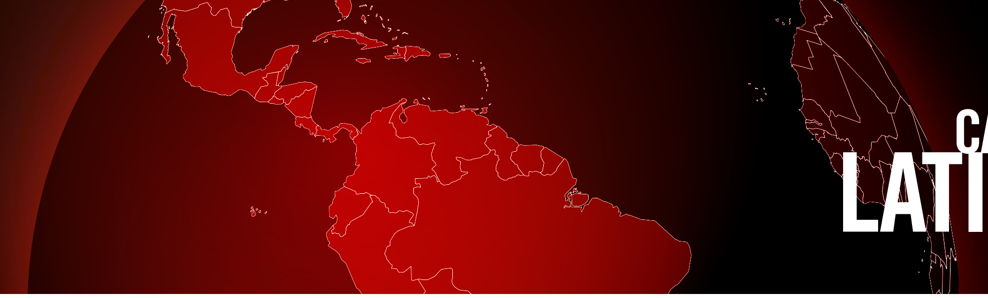
Race to the Border:

CATCHING UP WITH LATIN AMERICAN LOGISTICS

by Joseph O'Reilly
and Kathleen Hickey

Progressive trade policies and foreign investment, developing transportation infrastructure, and a growing 3PL presence in Brazil and Mexico are heating up Latin American logistics.

With so much focus on the Far East and the West Coast, and to a lesser degree the Near East (Eastern Europe), U.S. consignees and shippers need only look due south to find one of the world's emerging commercial and outsourced manufacturing and logistics markets. In terms of geography and logistics development, Latin America is on the periphery of U.S. distribution networks—and on the minds of forward-thinking global supply chain executives.



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Given Latin America's proximity to the U.S. market; the institutionalized difficulties of pulling Asian-origin cargo through congested West Coast ports; ongoing development of transportation and logistics infrastructure in the region, thanks in part to 3PL penetration; and growing foreign direct investment from the United States and elsewhere, the region's two leading economies—Mexico and Brazil—are making a concerted effort to transform Latin America into an emerging logistics hotspot.

Mexico

Tracking Trade

GDP: $742 billion

2005 U.S. Foreign Direct Investment: $71 billion

2006 Exports:	**$249 billion** (manufactured goods, oil and oil products, silver, fruits, vegetables, coffee, and cotton)	**Export to U.S.: 85.7%**
2006 Imports:	**$253 billion** (metalworking machines, steel mill products, agricultural machinery, electrical equipment, car parts for assembly, repair parts for motor vehicles, aircraft, and aircraft parts)	**Import from U.S.: 53.4%**

INFRASTRUCTURE SNAPSHOT: Benito Juárez International Airport (Mexico City)

CARGO VOLUME (2006)	RUNWAYS	
380,397 tons	**05R/23L:** 12,795 ft.	**05L/23R:** 12,966 ft.

AIRLINES SERVED: Aero California, Aeromexico, Air Canada, Air France-KLM, Alaska Airlines, American, British Airways, Continental, Delta, Grupo Taca, Japan Airlines, LAN Airlines, Lufthansa, Mexicana, Swiss International, United, US Airways, Varig

DID YOU KNOW? Mexico City Airport is the largest airport in Mexico, ranking 44th in the world in total tonnage. The airport links the Mexican capital to 48 cities nationwide and 55 cities abroad.

INFRASTRUCTURE SNAPSHOT: Port of Manzanillo

Main Channel Depth: up to 46 feet	**Container Volume (2006):** 1.3 million TEUs

CARGO FACILITIES: Specialized facilities for handling grain, vegetables, cement, and raw materials; refrigerated facilities for handling, transporting, and warehousing perishable products; multiple-use facilities for handling and storing general and container cargo.

DID YOU KNOW? The Port of Manzanillo is the only port in Mexico able to double-stack containers onto railcars.

Sources: CIA World Fact book; AAPA; Airports Council International; U.S. Bureau of Economic Analysis; U.S. Direct Investment Abroad; World Aero Data

The convergence of logistics and trade compliance functions is becoming commonplace and companies are finding amenable locations to base their operations in Brazil and Mexico, says Alvaro Quintana, the business leader for JPMorgan Chase Vastera's trade and logistics operations in Mexico. These centralized facilities are elevating logistics standards across the board for Latin American countries and companies alike.

Aside from its location, Mexico's low manufacturing costs and developing transportation capabilities make it an excellent option to consider when placing logistics and supply chain operations. Historically, Mexico has been passive about investing in and growing its transportation connections, but new government leadership is dictating a more progressive and committed approach to driving infrastructure improvements, as well as intermodal partnerships and trade agreements with the United States and other leading economies around the world.

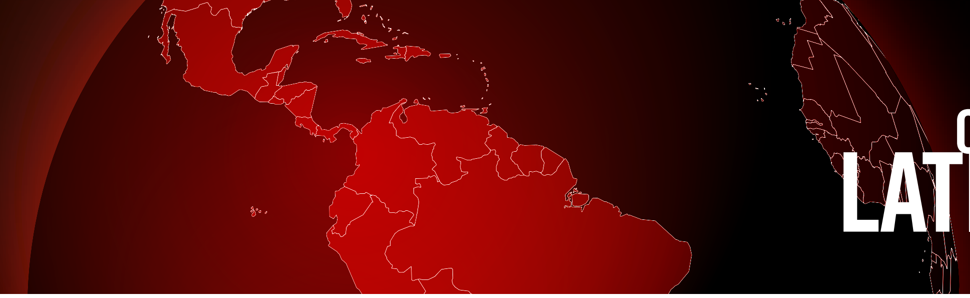
"Recently Mexican President Felipe Calderón said that we need to increase border crossings. That is not a typical statement from a president. It's very encouraging," observes Quintana.

The Beat Goes On

Brazil's economy, too, is dancing to the beat of rapidly increasing commercial growth, anchored by a strong commodities export market that totaled $138 billion in 2006. Export volumes are expected to grow because of Brazil's strong currency compared to the U.S. dollar, and low labor costs, says Carlos Gonzalez, director of SEKO Brazil, a branch of global logistics company SEKO.

This growth potential has given the government and private sector more reason to develop transportation infrastructure to meet pulsating demand.

As U.S. businesses continue their quest to find the most economic and reliable global sourcing and outsourcing locations, Mexico and Brazil are gradually catch-



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ing up with other emerging logistics and distribution markets. Progressive trade policies and increasing foreign investment, improvements to transportation infrastructure, and a growing 3PL market have many U.S. companies considering a run for the border.

THE FIRST STEP: Liberating American Trade

Free trade agreements have dramatically changed the logistics landscape in Latin America and opened the doors to greater trade within the region and with other countries, especially the United States, says Al Benki, senior vice president of international services at Ozburn-Hessey Logistics (OH Logistics), a Brentwood, Tenn.-based third-party logistics provider.

"Ongoing trade policy changes throughout Latin America are moving trade from restrictive to open," he adds. These free trade agreements will continue to accelerate the maturation of Latin America's logistics capabilities.

Latin America's trade growth will continue over the next five to 10 years, spurred not only by open trade policies but increased political stability and continuing investment in infrastructure, Benki predicts.

For example, the North American Free Trade Agreement (NAFTA), which covers trade among Canada, the United States, and Mexico, has dramatically increased freight volume. From 1993 to 2005, trade among the NAFTA nations climbed 173 percent, says J. Anthony Hardenburgh, vice president global trade content, Management Dynamics, an East Rutherford, N.J.-based global trade software provider.

The Americas may even become its own trading bloc—operating in a similar format as the European Union—within the next 10 years, says Hardenburgh.

"Free trade agreements within the Americas will absolutely help the region compete with the European Union," he asserts.

Other major free trade agreements impacting Latin America include Mercosur and the Dominican Republic-

Public-private partnerships aimed at creating and connecting U.S. and Mexican logistics facilities are key to increasing cross-border trade efficiencies. A newly announced partnership between the State of Nuevo Leon, Mexico, and U.S. developer The Allen Group will link the Dallas Logistics Hub (*below*) with an intermodal facility in Monterrey-Saltillo, Mexico. The Dallas facility will include BNSF and Union Pacific intermodal terminals and key road and airport access points.

Central America Free Trade Agreement, commonly called DR-CAFTA. Mercosur is a regional trade agreement founded in 1991 among Brazil, Argentina, Uruguay, Venezuela, and Paraguay. Bolivia, Chile, Colombia, Ecuador, and Peru currently hold associate member status.

DR-CAFTA encompasses trade among the United States, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic. It comprises the second-largest U.S. export market in Latin America, behind Mexico, and is currently the biggest free trade agreement in the region.

"A free trade agreement can be the deciding factor in whether a company locates a plant in a certain country, or imports/exports to other countries that are part of the agreement," says Hardenburgh.

As a result of these agreements, U.S. foreign direct investment in Mexico specifically, and Latin America in general, has accelerated. Since NAFTA was ratified in 1994, U.S. outlay to Mexico has increased from $17 billion to $71 billion in 2005, according to the U.S. Bureau of Economic Analysis. In Latin America, U.S. investment has more than tripled from $117 billion in 1994 to $353 billion in 2005.

3PLs Lead the Way

In May 2007, Reading, Pa.-based Penske Logistics partnered with Belgian freight forwarder ABX Logistics to create a joint company that provides international freight management services to companies in Brazil. The ABX-Penske Air & Sea venture reflects the growing maturity of Latin American markets and the demand for complementary logistics expertise to meet the shifting challenges of companies in the region.

Penske's inroads into Latin America began in the 1980s when it followed automotive manufacturing customers south of the border to Mexico. In the two decades since, the 3PL has expanded its presence in Mexico, while targeting logistics partnerships and acquisitions to cement its footprint in Brazil.

Inbound Logistics **spoke with Joe Gallick, senior vice president of sales for Penske Logistics**, to parse out the different contexts of doing business in Mexico and Brazil, the growing outsourced logistics market, and the challenges facing companies establishing manufacturing and distribution competencies in the region.

IL: How has Penske Logistics grown its business in Brazil and Mexico to serve U.S. and global customers?

JG: Penske's business in Mexico and Brazil has evolved for different reasons. In Mexico, we operate six facilities serving seven customers. Much of this activity originated in northeastern Mexico when some manufacturing customers migrated there in the mid-1980s. So we naturally followed their lead into Mexico.

Because of Mexico's proximity to the United States, our customers' business strategies were largely driven by U.S. interests – exporting intellectual capital and management resources, then marrying that with requisite labor needs in Mexico.

Penske penetrated the Brazilian market in the mid- to late 1990s through a joint venture with Cotia Trading S.A., then the largest independent Brazilian trading company. We entered this partnership to leverage Cotia's in-country knowledge and expertise to serve Brazil's growing consumer market, while also gaining access to other trading partners in the region. Since then, Penske has bought out Cotia and doubled business in Brazil.

Because business opportunities and needs in Brazil are more domestic and distribution oriented, leveraging Cotia's knowledge of the market and understanding of tax issues in different areas has been vital. When Penske partnered with ABX Logistics, our customer base required that we develop greater competency managing intercontinental product movement, so its freight forwarding capabilities complemented our contract logistics expertise. Likewise, ABX Logistics was looking for a logistics counterpart to its forwarding business. This joint Brazilian venture brings to bear both companies' specialized capabilities as we go to market.

IL: What types of customers and what industries are leveraging Penske's resources to target the Latin American market for manufacturing, distribution, and logistics activities?

JG: The automotive industry brought Penske into Mexico; since then we have expanded our footprint into the truck manufacturing vertical as well. Penske has also been able to move successfully into the automotive supply base, and horizontally into more diversified industrial and durable goods manufacturing. The sheer scale and volume of North America's automotive sector requires logistics service providers to design effective material flow networks, and adapt information technology systems to support OEMs' lean manufacturing processes. Penske has leveraged this expertise into other supply chain verticals.

Brazil has some overlap in its automotive sector. For example, Penske manages inbound moves for 50 General Motors automotive suppliers. Elsewhere, many customer needs focus on domestic distribution and Penske has created a foothold in the consumer electronics market for

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Central American countries are optimistic that the 2005 CAFTA legislation will have a similar impact on foreign investment.

While these free trade agreements are a boon to importers and exporters, companies still need to develop mechanisms to fully take advantage of and be in compliance with these policies, says Quintana.

Many importers and exporters face initial difficulties with trade authorities as they begin embracing new, and potentially unfamiliar, free trade agreements, Quintana reports. These issues are mitigated somewhat by the similar structure of treaties over the last 10 or 15 years, many of which are based on NAFTA language.

Still, enforcing these treaties can be challenging, and without enforcement benefits are minimal, says John Price, president and director of the trade, competitiveness, and investment practice for InfoAmericas, a logistics consultancy based in Coral Gables, Fla.

"A truck in Colombia can transport goods to Ecuador but can't move goods from Ecuador to Columbia," he says. "Without enforcement, companies don't achieve regional consolidation, and the market remains fragmented with small players that can't invest in modern logistics facilities."

companies such as Sony and Samsung.

IL: What are the logistics and transportation advantages for companies doing business in Brazil and Mexico?

JG: Mexico's manufacturing capacity and proximity to the United States are obvious advantages. Most of its consumer demand is still in the United States, but as the economy strengthens it will create more opportunities to target the domestic market as well. Brazil's explosive consumer growth and position as South America's most progressive economy have created a space for logistics service providers and companies to make inroads there and help build it into a major manufacturing hub. As economic growth slowly filters out to other South American countries, companies will be able to support these markets from Brazil as well.

Through complementary logistics partnerships and acquisitions, Penske Logistics cemented its footprint in Brazil. From its warehouses there, Penske serves global corporations such as GM and Sony.

IL: What areas need to be addressed?

JG: Infrastructure improvements are shared concerns for both Brazil and Mexico. Companies in Brazil are not only importing product into market for resale, but are beginning to more comprehensively establish manufacturing operations in locations such as Manaus, a port city on the edge of the Amazon that relies on river-flow transport to deliver product to Brazil's larger consumer markets. More efficient transportation options are needed to meet growing domestic demand. In Mexico, developing the necessary infrastructure to ease port congestion and safely and securely facilitate transportation across the border are areas being addressed.

IL: Do you expect to see more companies locating distribution facilities in Mexico to circumvent U.S. West Coast port congestion and facilitate inland distribution to the United States?

JG: Penske is urging more customers to look at some emerging intermodal options. In Kansas City, for example, we bring product inbound from Asia into the Port of Manzanillo, and the Port of Tampico can accommodate European and Brazilian freight volumes. Penske manages this freight from the ports, using stack trains for transport to Kansas City, where it can then be offloaded and deconsolidated for U.S. redistribution. This option makes sense for certain types of manufacturers.

IL: Are Brazil, Mexico, and the U.S. governments talking and working with private enterprises to support growth initiatives in Latin America?

JG: I see activity that indicates ongoing conversation across the political and business community. Academic and policy forums foster much of this dialogue. Whether or not this discourse is trickling down to the regional and local level, I don't know. Ongoing discussions about world trade's ebb and flow, and the challenges of doing business globally, are meaningful. At the very least, these types of discussions are beginning to take root, enabling companies in Brazil and Mexico to continue investing in and growing their businesses.

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As more liberal trade policies become standard rules for engagement, Latin American countries will have even greater incentive to invest in the necessary transportation infrastructure and modern logistics facilities to accommodate greater trade volumes and lure additional foreign business. In Mexico and Brazil, the race has already begun.

MEXICO: Making Inroads and Laying Track

Currently, 70 percent of Mexico's trade with the United States is shipped via land, and 37 percent of that moves through Laredo, Texas. But if current NAFTA and inbound Asian freight volumes are any indication, Mexico's potential as a logistics hub is equally predicated by comprehensive transportation capabilities from the ports to the highways, and all modes in between.

With several globally competitive ports, a top-50 global air cargo hub in Mexico City, 16,156 miles of railroad track, four intermodal corridors, 62,137 miles of two-lane roads, and more than 6,213 miles of four-lane highways, Mexico is poised for supply chain growth, according to a recent Council of Supply Chain Management Professionals (CSCMP) report.

In order to compete with developed nations' logistics operations, however, Mexico must overcome several challenges, including infrastructure issues–especially its rail network–and customs delays. Currently Mexico's port delays are twice that of international standards, reports CSCMP.

Despite these shortcomings, Mexico's ports are a pivotal component of its supply chain prospects. Transportation authorities are laying the groundwork to improve intermodal connections and infrastructure to accommodate Asian-origin overflow volume increasingly diverted from the U.S. West Coast.

Shipments from Mexico's Port of Cardenas can be delivered directly to America's heartland via Kansas City Southern's rail corridor into the Kansas City SmartPort.

"Mexico needs to continue to build infrastructure and grow its seaports and land border crossings," notes Quintana.

Currently, public and private sectors within the United States and Mexico are collaborating to improve cross-border trade operations and link Mexico's ports with U.S. inland port facilities.

For example, in May, the State of Nuevo Leon, Mexico, which is developing an inland port and manufacturing facility, and The Allen Group, architect of the 6,000-acre Dallas Logistics Hub in Texas, signed a memorandum of understanding to create a new trade corridor between Mexico and the United States.

In the Zone

The agreement includes designating a customs pre-clearance zone for developing integrated logistics systems linking the Interpuerto intermodal facility in Monterrey-Saltillo, Mexico, and the Dallas Logistics Hub. Their shared objective is to increase trans-border transport efficiency and improve trade competitiveness among enterprises located in both areas.

"Customs pre-clearance is important for both parties because it will expedite the flow of goods between Nuevo Leon and Texas and provide additional security for enterprises operating within the facilities," says Ambassador Francisco Javier-Alejo, Nuevo Leon's executive coordinator.

The Dallas Logistics Hub adjoins Interstates 35, 45, and 20, and is in close proximity to Dallas/Fort Worth International Airport. Current plans for both BNSF and Union Pacific to build and operate intermodal facilities in and near the hub will offer U.S. consignees and shippers a full complement of intermodal resources to move shipments to and from Mexico.

Elsewhere, Kansas City SmartPort, an inland port supported by both public and private sectors, has created a rail corridor with Kansas City Southern Railroad linking the Port of Cardenas on Mexico's West Coast to the heart of the American Midwest. With the convenience of an

on-site Mexican customs facility, stateside consignees can clear goods moving through the Mexican port in Kansas City, streamlining transit and circumventing congested ports in the United States.

These developing projects should help boost efficiency on the motor freight side as well. Mexico's trucking network is currently comprised largely of single operators, reducing efficiency and exposing security and theft concerns.

"Difficult traffic patterns in Mexico create routing and security issues. Hijacked trucks, for example, are prevalent in Latin America," says Nancy Troutman, vice president of distribution and logistics for Neoris, a Miami-based consulting firm.

But these pain points are easing as U.S. over-the-road carriers such as Schneider National, Roadway, CFI, and Swift Transportation penetrate the Mexican market, bringing with them modern equipment and IT capabilities that enhance customer service and raise transportation expectations for Mexican businesses.

For its part, Mexico's transportation and logistics competencies are complemented by ongoing initiatives to minimize challenges for consignees and shippers, as well as the cross-border Free and Secure Trade project (FAST) implemented by Mexican and U.S. authorities to reduce customs delays between the two countries.

BRAZIL: Joining the Global Stage

From the Amazon River in the northwest to the coastal cities of São Paulo and Rio de Janiero in the southeast, Brazil lays claim to a fast-developing network of port facilities. Tubarao, Itaqui, Santos, and Septiba rank among the world's top 50 ports in terms of cargo tonnage. Current efforts to better connect the ports and develop Brazil's expanding railroad network will help reduce logistics costs and enhance the country's competitiveness on the global stage.

"Brazil is still a young logistics market worldwide," says SEKO Brazil's Gonzalez. "It is moving out of the undeveloped category."

Brazil's airfreight sector is on a fast ascent. São Paulo is Latin America's number-one air cargo hub, pulling in 475,182 tons of freight in 2006–an 8.3-percent increase over 2005. Global air carriers are taking notice.

Delta Air Lines, for example, started its Latin American operations in 1998. It

Brazil

Tracking Trade

GDP: $943.6 billion

2005 U.S. Foreign Direct Investment: $32 billion

Exports:	**$138 billion** (transport equipment, iron ore, soybeans, footwear, coffee, autos)	**Export to U.S.:** 19.2%
Imports:	**$91 billion** (machinery, electrical and transport equipment, chemical products, oil, automotive parts, electronics)	**Import from U.S.:** 17.5%

INFRASTRUCTURE SNAPSHOT: São Paulo/Guarulhos International Airport

CARGO VOLUME (2006):	RUNWAYS:	
475,182 tons	**Runway 09R/27L:** 9,843 ft.	**Runway 09L/27R:** 12,140 ft.

CARGO FACILITIES: Five cargo terminals; free Port/Foreign Trade Zone; refrigerated storage; fresh meat inspection; livestock handling; X-ray equipment; dangerous and radioactive goods handling; large/heavy cargo

AIRLINES SERVED: ABSA Cargo Airline, Aerolineas Argentinas, Aeromexpress, Air Canada, Air France-KLM, Alitalia, American, British Airways, Continental, Delta, FedEx, Iberia, Korean Air, Lufthansa, Nippon Express, Panalpina, Polar Air Cargo, South African Airways, Tap Air Portugal, Tristar Air, United

DID YOU KNOW? São Paulo ranks 36th in the world in total tonnage.

INFRASTRUCTURE SNAPSHOT: Port of Santos

Main Channel Depth: up to 44 ft.	**Container Volume (2005):** 2.3 million TEUs

CARGO FACILITIES: Special warehouses for inspecting and sorting coffee; facilities for handling bulk corn, bagged sugar, bulk sugar, bulk wheat, and cotton; cold storage warehouse; three wheat grain silos; 101 tanks for liquid flammables.

DID YOU KNOW? The Port of Santos ranks 44th globally in total tonnage, and is the largest port in South America.

Sources: CIA World Fact book; AAPA; Airports Council International; U.S. Bureau of Economic Analysis; U.S. Direct Investment Abroad; World Aero Data

began with five flights a day to Central and South America, mostly on narrow-body aircraft, reports Abimael Ortiz, regional director, cargo sales, Latin America, Caribbean, and Asia for Delta. Its cargo operations continue to grow, particularly in perishable shipments. Today, Delta operates a Boeing 757 medium- to long-haul aircraft out of Lima, Peru, to handle the country's expanding perishables export business.

Delta transports perishables including plants, flowers, fish, and vegetables globally from Latin America. It also ships apparel, automotive parts, and electrical equipment to a range of customers in Latin America, including freight forwarders, and local and international companies.

Because of its proximity to the United States, Latin America is an ideal location from which businesses can ship U.S.-bound perishable and time-sensitive cargo. "In contrast to Asia and Europe, shippers can move goods into the United States from Brazil within four to six hours," Ortiz adds.

Consumers Drive Change

Moving forward, Brazil's fast-growing, consumer-driven market will demand a more concerted effort on the part of both transportation and government sectors to create better connections and more fluid movement of goods within the country. This will help reduce inefficiencies and drive down costs, making Brazil's burgeoning manufacturing regions even more accessible and attractive to global outsourcers.

While infrastructure growing pains are certainly cause for pause, public and private enterprises in Latin America are coming together to stimulate funding and facilitate improvements across the board. Brazil's coastal port development and capacity to accommodate significant volumes of inbound container freight volume is a huge boon to the country's future economic reckoning—as is its burgeoning air cargo sector.

GLOBAL SHIPPERS: Outsourcing in a New World

For global businesses still wary of going it alone in Latin America, a growing cadre of 3PLs with strong competencies in Latin American trade are prepared to facilitate introductions.

Outsourcing logistics functions to 3PLs averts risky capital investment, offers greater flexibility in engaging in or disengaging from a market as needed, and allows businesses to grow their presence organically.

In Latin America, where transportation and warehousing/distribution infrastructure development has been patchy, companies are compelled to consider outsourcing options to gain efficiencies and reduce costs from the start. For many, the first step is overcoming the anxiety associated with outsourcing.

"Fear of outsourcing in Latin America stems from a weak legal environment and a lack of security. Many companies are slow to outsource because they don't want to trust inventory management to a company they don't know," says Price of InfoAmericas.

With Latin America's accelerating pace of change, companies require guidance as they adapt their go-to-market strategies and the logistics resources and capabilities necessary to support end-consumer demand.

"One typical problem for Latin American companies is that their supply chain infrastructure didn't grow in a planned manner. They may have introduced a new product or acquired a new company, but haven't adjusted their supply chain infrastructure to that changed reality," reports Jose Nava, president of Latin America's DHL Exel Supply Chain.

Given challenges such as this, 3PL expertise in Mexico and Brazil is vital for businesses looking to make inroads there.

There is, however, growing indication that outsourcing anxieties in Latin America are wearing off—thanks in large part to the forward-thinking initiatives of several trans-national corporations.

While consumer demand in Brazil is growing, infrastructure has not kept pace. Companies still rely on operations such as this river port in Manaus to transport products to Brazil's larger consumer markets.

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Within the last five years, Latin American-based companies have begun supply chain improvement projects to compete globally. While the automotive and consumer goods industries sit at the forefront, "today almost any industry in Latin America is outsourcing at some level," notes Nava.

General Motors de Mexico (GMM), for example, turned to Penske Logistics in 2002 to act as lead logistics provider. The companies created a three-phase plan to reduce costs and inefficiencies for the automobile manufacturer's expanding inbound transportation network, enhance overall supply chain visibility, and create benchmarking processes to drive better accountability among suppliers and carriers.

Prior to bringing Penske Logistics on board, GMM's eight operations in Ramos, Toluca, and Silao were managing transportation and logistics activities independent of each other, creating myriad inefficiencies and redundancies. GMM implemented Penske's proprietary Logistics Management System (LMS) to create a collaborative platform for its sites and logistics partners to access and share real-time information.

Higher Visibility, Lower Transport Costs

The initiative helped GMM improve supply chain visibility, which increases communication among the plants and their carriers; holds carriers accountable for performance; and drives accurate capacity forecasting. Within six months of rolling out the project, GMM reduced transportation costs 15 percent.

"LMS is more than a cost-reduction plan. It has changed the way we manage inbound transportation at the individual level. GMM operates with a new degree of accountability–the system has enabled us to maximize our best performers, while weeding out the liability of low-performers," reports Roger Peterson, director of production control and logistics, General Motors.

"I can count on one hand the number of Latin American universities that offer logistics degrees. We have to do extensive work internally to develop talent."

—***Jose Nava**, president of Latin America's DHL Exel Supply Chain*

In 2004, Cummins Latin America, a São Paulo, Brazil-based diesel engine manufacturer and distributor, began using the *Tradesphere* management solution from JPMorgan Chase Vastera to facilitate and expedite import/export cargo through Brazil's Linha Azul (Blue Line) trade program.

Utilizing the global trade management software, the manufacturer is able to expedite information exchange with Brazil's trade authorities, create supply chain visibility of inbound parts–which, in turn, creates outbound efficiencies–and reduce inventory and costs while increasing productivity.

In March 2007, Cummins' Mexico division partnered with Vastera to help manage freight transportation to and from manufacturing plants in Juarez and San Luis Potosi, Mexico. These facilities manufacture and distribute diesel engines and handle approximately 60,000 import/export transactions per year. As part of the agreement, Vastera handles import/export compliance, duty and broker management, and U.S./Mexico border logistics management.

In Mexico and Brazil, where 3PL penetration is approaching a level of maturation, global companies such as Cummins and GM are successfully adapting their outsourced logistics operations and strategies to account for their own growth, forcing local companies to become more competitive, while also paving the way for other enterprises to make inroads into Latin America.

No Pain, No Gain

While these successes in Mexico and Brazil point to the overwhelming capacity for increased manufacturing and distribution/logistics activity in the region, both private and public sector businesses are addressing the following growing pains elsewhere in Latin America as they get up to speed:

› **The 3PL market in Latin America, while consolidating, continues to be fragmented** with many small- to medium-sized 3PLs operating in niche markets, says OH Logistics' Benki. Shippers that operate across Latin America need to work with multiple providers or with a large provider that has partnerships in place throughout the region. Countries and companies are developing programs to address these concerns and these issues shouldn't stop companies from doing business in Latin America, he notes.

› In some cases, **outsourcing needs**

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are growing faster than the logistics service providers capable of meeting them. "I can count on one hand the colleges and universities in Latin America that offer logistics degrees. Logistics providers struggle to obtain talent at the speed the market requires. We have to do an extensive amount of work internally to develop talent," says Nava.

› Credit and wealth distribution is another factor impacting Latin American logistics operations. **Credit-based transactions are expanding and gaining on once prevalent cash-based purchases,** notes Benki.

Wealth distribution also affects trade. Ten major Latin American cities, representing 20 percent of the population, control 60 percent of the purchasing power for the region. Trade is concentrated in these areas rather than across broader geographic regions, as is the case in the United States. But as the middle-class consumer sector grows in Latin America, so will geographic trade regions, Benki predicts.

› **Customs clearance can be an issue for companies considering doing business in Latin America.** "An express package delivered in Argentina can still take up to one week to clear customs. If the same package arrived in Taipei it would clear customs in 18 minutes," says Price.

› **Supply chain security is an additional concern.** "Ten years ago, it was rare for trucks to be hijacked. Today it happens more frequently," says Nava. "This fear has pushed Latin American businesses to develop additional security capabilities and constantly review security practices."

While growing consumerism is a positive sign of economic stability, the real potential for Latin America is the capacity to connect existing cargo portals with modern transportation links and distribution facilities.

› MOVING FORWARD: Growing Consumerism, Collaboration

One reality for Brazil and Mexico is that increasing trade—a result of investments in transportation and logistics infrastructure—is driving economic growth.

Brazil already has a viable and hungry consumer base that is luring manufacturers and retailers to set up operations. In Mexico, domestic consumption is growing at a slower clip, but trending in the right direction.

Consumption has outpaced GDP growth in Mexico since 2000, when internal consumption, rather than exports, began driving Mexico's economy.

The real driver of internal consumption growth is the rapid expansion of consumer credit from a very narrow base, according to data collected by InfoAmericas.

"In spite of the fact that consumer credit has grown at more than 25 percent per year in Mexico since 2000, the economy remains one of the most underbanked among large global economies," the report notes. "In Mexico, consumer credit equals 20 percent of GDP, versus U.S. consumer credit, which is equal to about 105 percent of GDP."

Making the Connection

While growing consumerism is a positive sign of economic stability, the real potential for both Brazilian and Mexican business interests, and Latin America at large, is the capacity to connect existing cargo portals with modern transportation links and distribution facilities. As these transportation and logistics competencies continue to develop and mature, companies are becoming more comfortable operating in Latin America and will inevitably expand their footprints into other emerging markets.

For Payless Shoe Source this is already the case. The Topeka, Kansas-based footwear manufacturer opened its first retail location in Central America—a store in San Jose, Costa Rica—in 2000. Since then it has partnered with a third-party service provider to open a distribution center within the free trade zone in Colon, Panama, that supports inventory replenishment to all its stores in Latin America.

Payless now operates 185 stores across six countries in Central America, two countries in the Caribbean, and one country in South America.

Blazing Their Own Trails

Countries such as Panama (which has the added bonus of global trade moving through the Canal), Chile, Colombia, Costa Rica, Argentina, and Puerto Rico are picking up the trail blazed by both Mexico and Brazil to create their own economic paths for the future. In some cases 3PL penetration already exists; elsewhere U.S. companies are taking their third-party logistics partners along for the ride.

As a developing region, Latin America still needs to address a range of issues to improve its logistics potential. Questions concerning infrastructure, trade policies, and the importance of transportation and logistics initiatives in the public sector are legitimate, but these concerns materialize in other promising logistics locations in Asia and Eastern Europe as well.

Continuing efforts to drive private/public sector collaboration are optimistic signs for Latin American trade and ambitious U.S. businesses. The run for the border may soon become a sprint. ■