



**GLOBAL INSIGHT**



## ***Trade Growth - Fundamental Driver of Port Operations and Development Strategies***



Alliance of the Ports of Canada, the Caribbean, Latin America and the United States

**Marine Terminal Management  
Training Program  
October 15, 2007**

***Long Beach, CA***

***Paul Bingham  
Global Insight, Inc.***

# *Agenda*

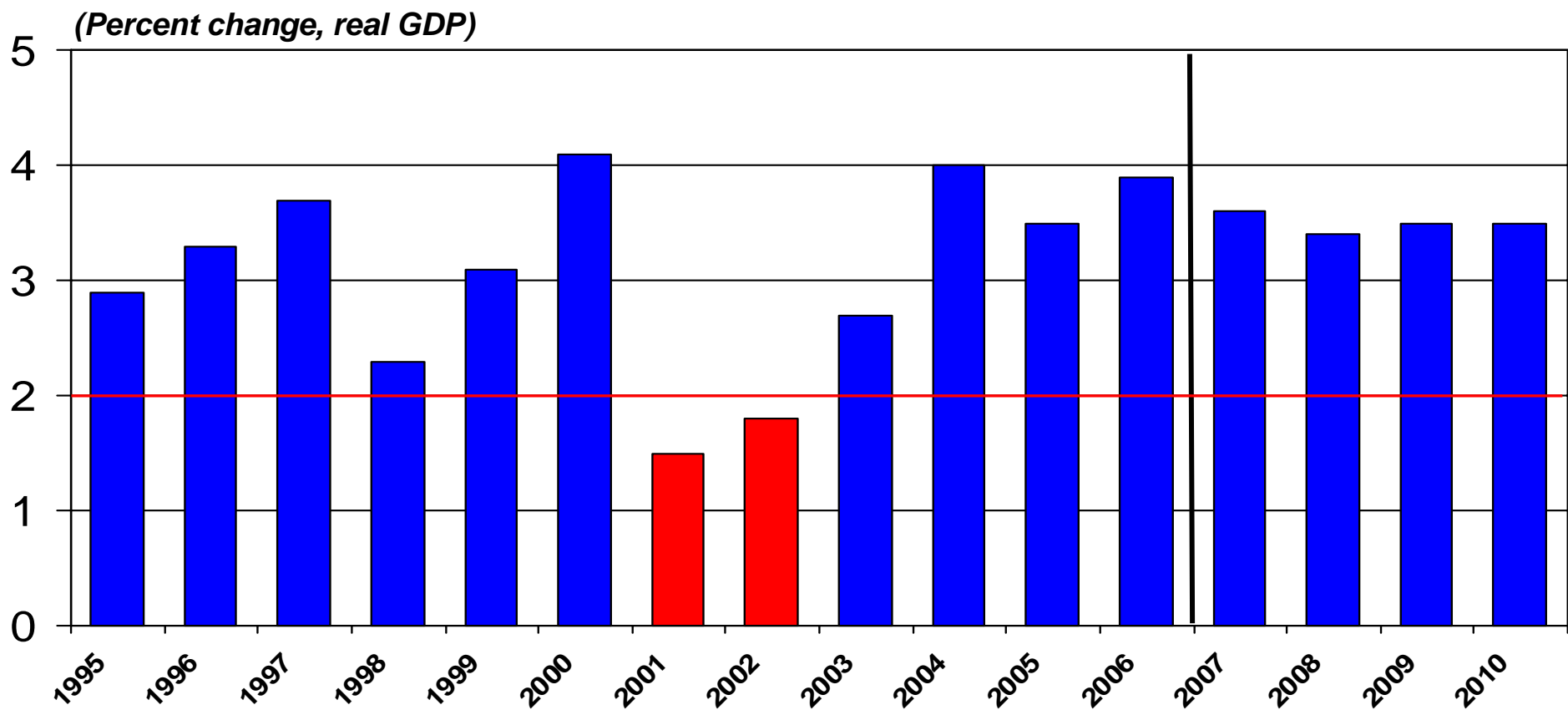
- **Economic and trade outlook**
- **Implications for ports**

## ***World Outlook – Weaker Near-term Performance***

- **U.S. – A “harder” soft landing, without recession**
- **Europe – Less immune to the U.S. economic problems**
- **Japan – Weaker growth; more political uncertainty**
- **Asia – Vulnerable to financial turmoil and a Chinese slowdown**
- **U.S. dollar exchange rate – Still more to fall**
- **World recession risk – Still fairly low**
- **Globalization – continues to increase trade**

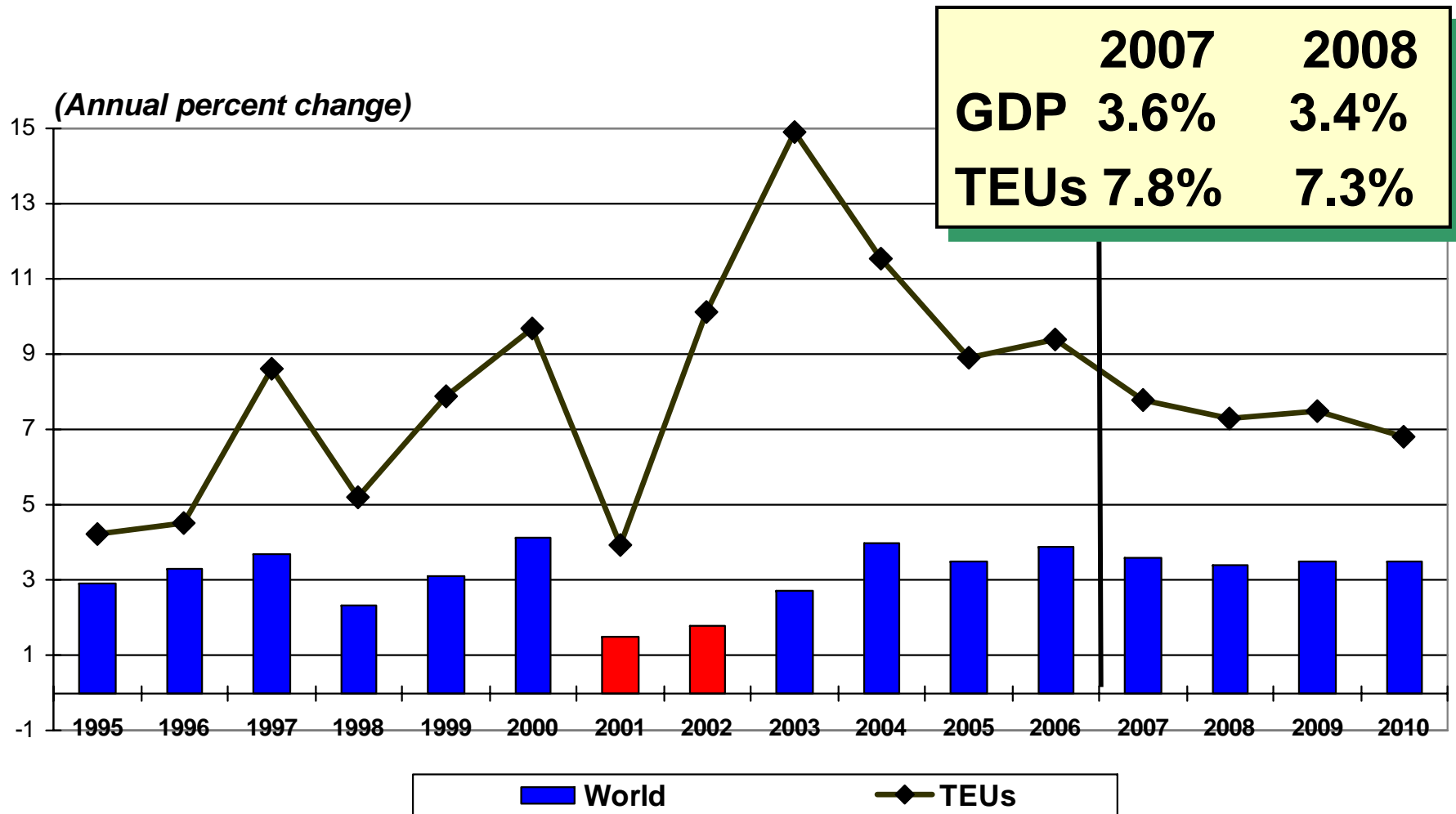
# Did world economic growth peak? -- yes, but...

The world economy is in recession when real GDP growth is below 2%



Source: Global Insight World Service

# World container trade has been growing faster than the world economy, even while slowing and the gap shrinking



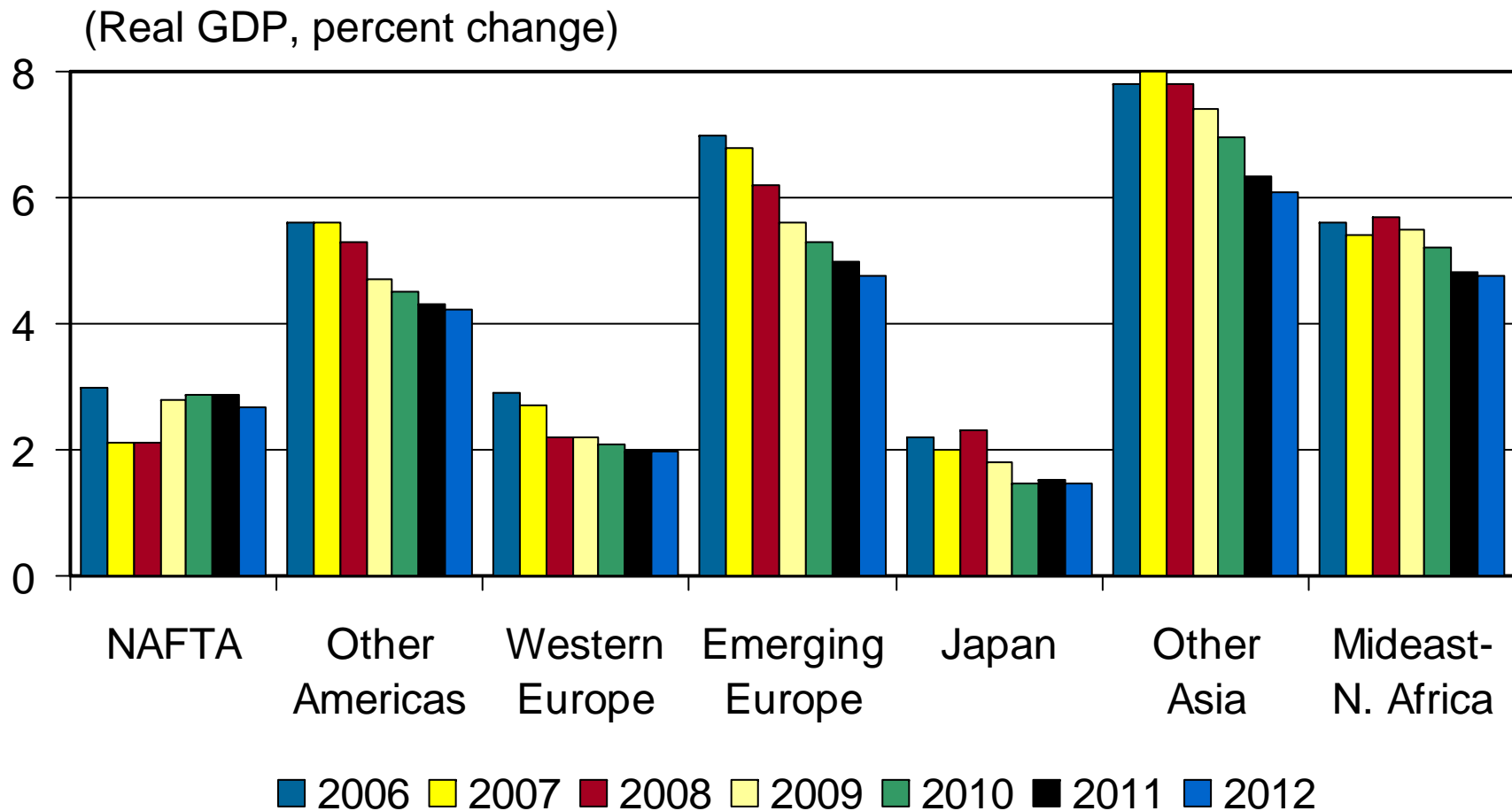
Source: Global Insight World Service and World Trade Service

## ***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**
-  • **Impedance of freight traffic through trade corridors and at ports and border crossings**

**While all regions have increased trade,  
growth is uneven**

# Trade is linked to GDP growth – though uneven across the world; emerging markets are growing fastest



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

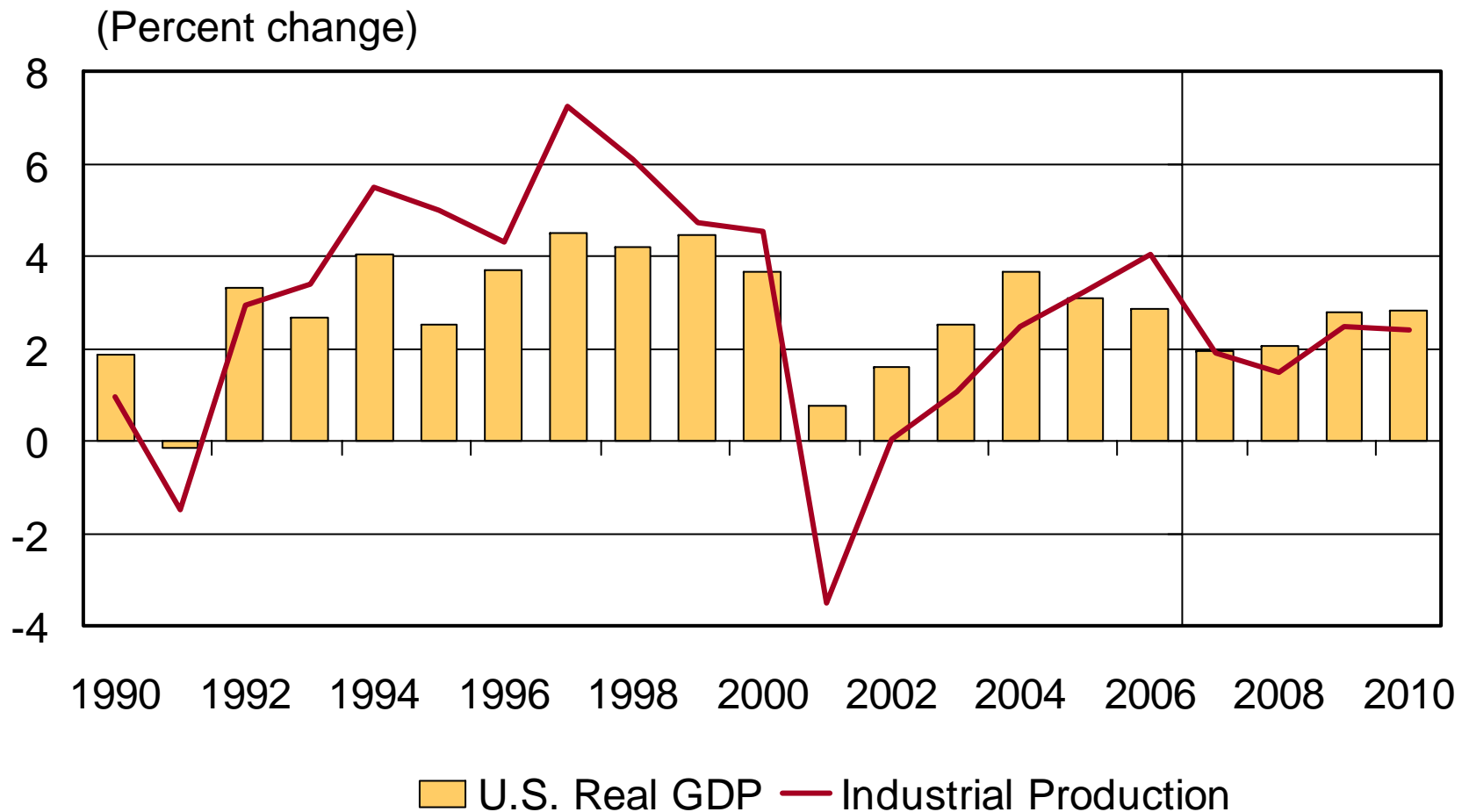
(Country GDP Rank in Billions of Real (2003) U.S. Dollars)

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

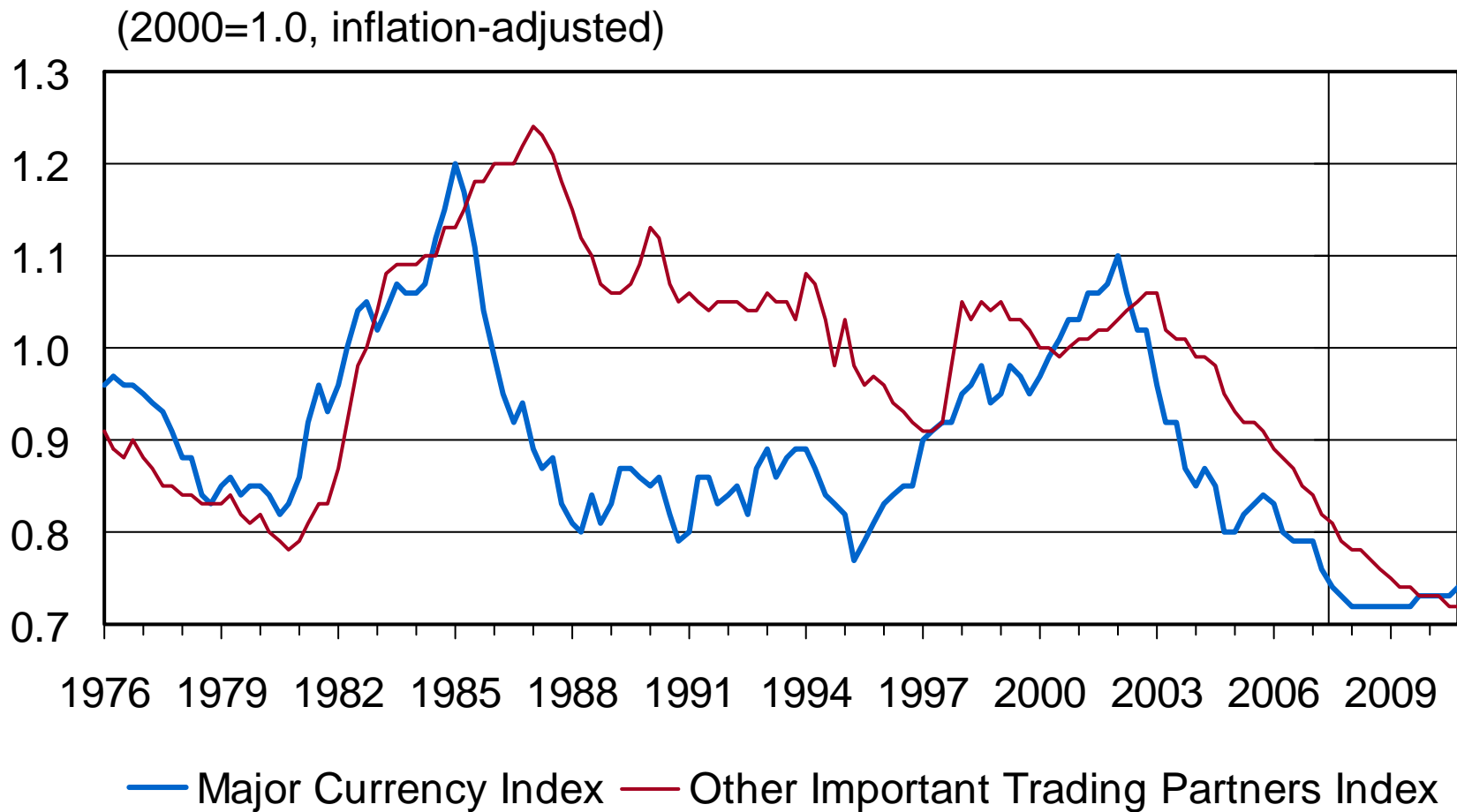
Source: Global Insight World Service and Goldman Sachs



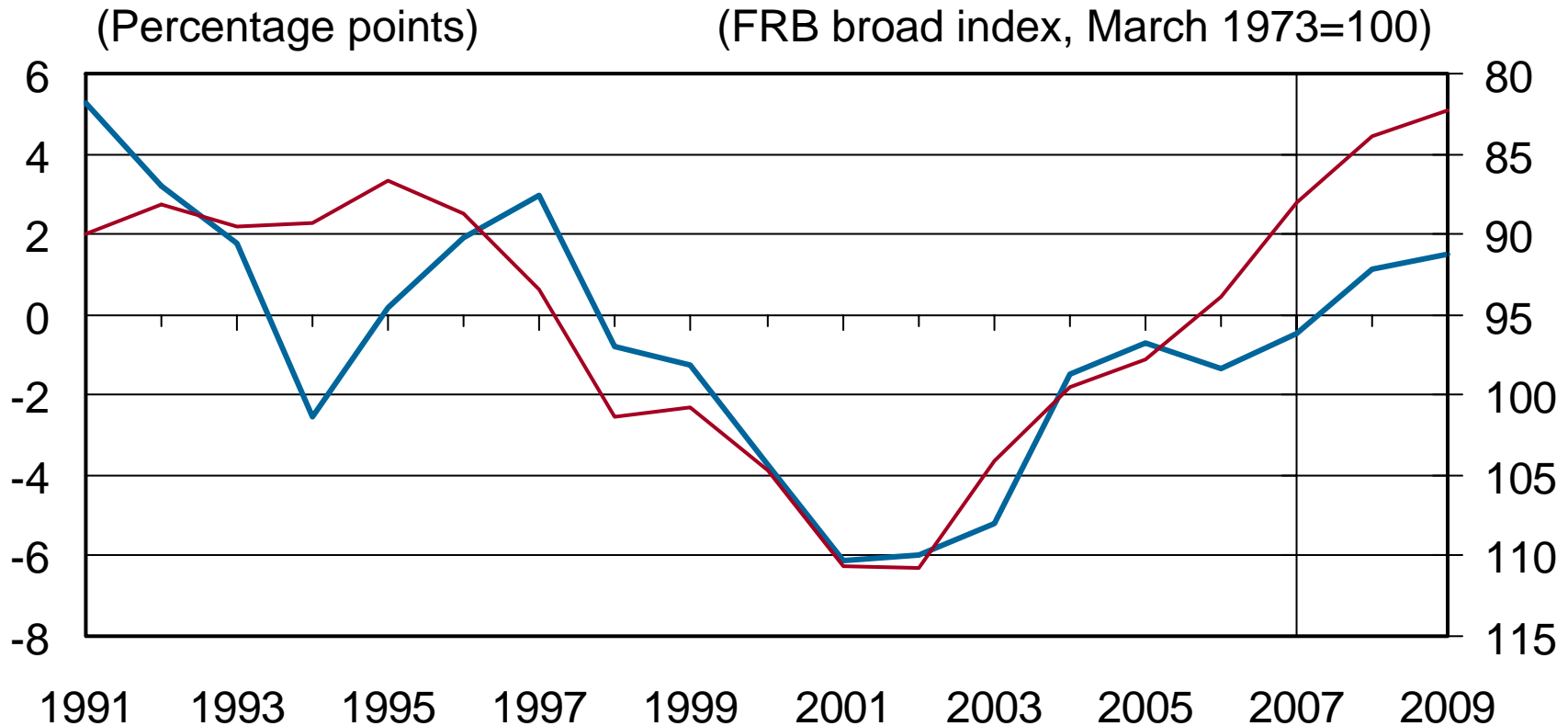
# *The U.S. economy is in a slowdown – not recession, but with downside risks increasing*



# *The U.S. Dollar Will Depreciate Further, Boosting Export Competitiveness and Dampening Import Demand Growth*

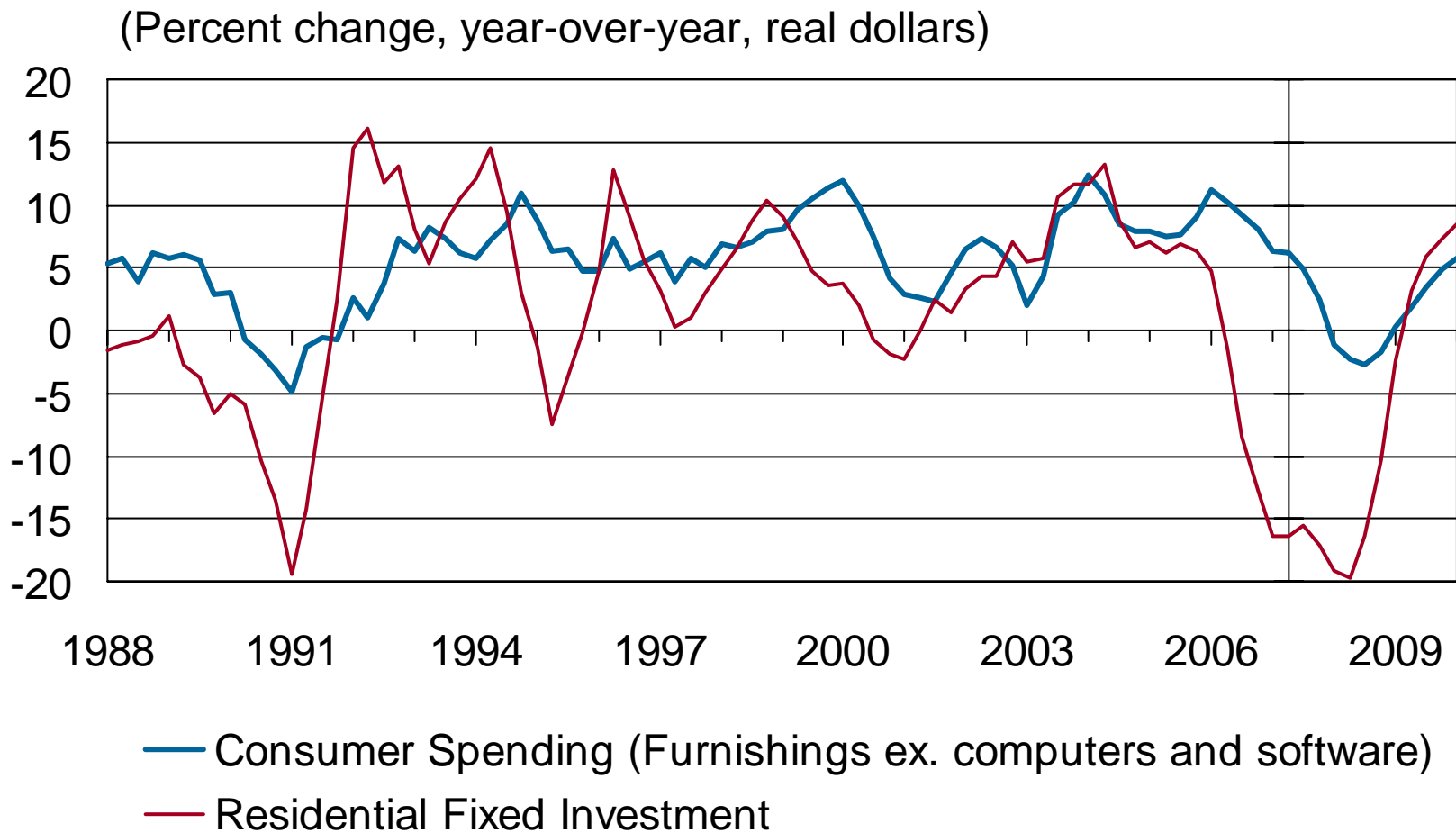


# U.S. Export Performance Has Tracked the U.S. Dollar Exchange Rate

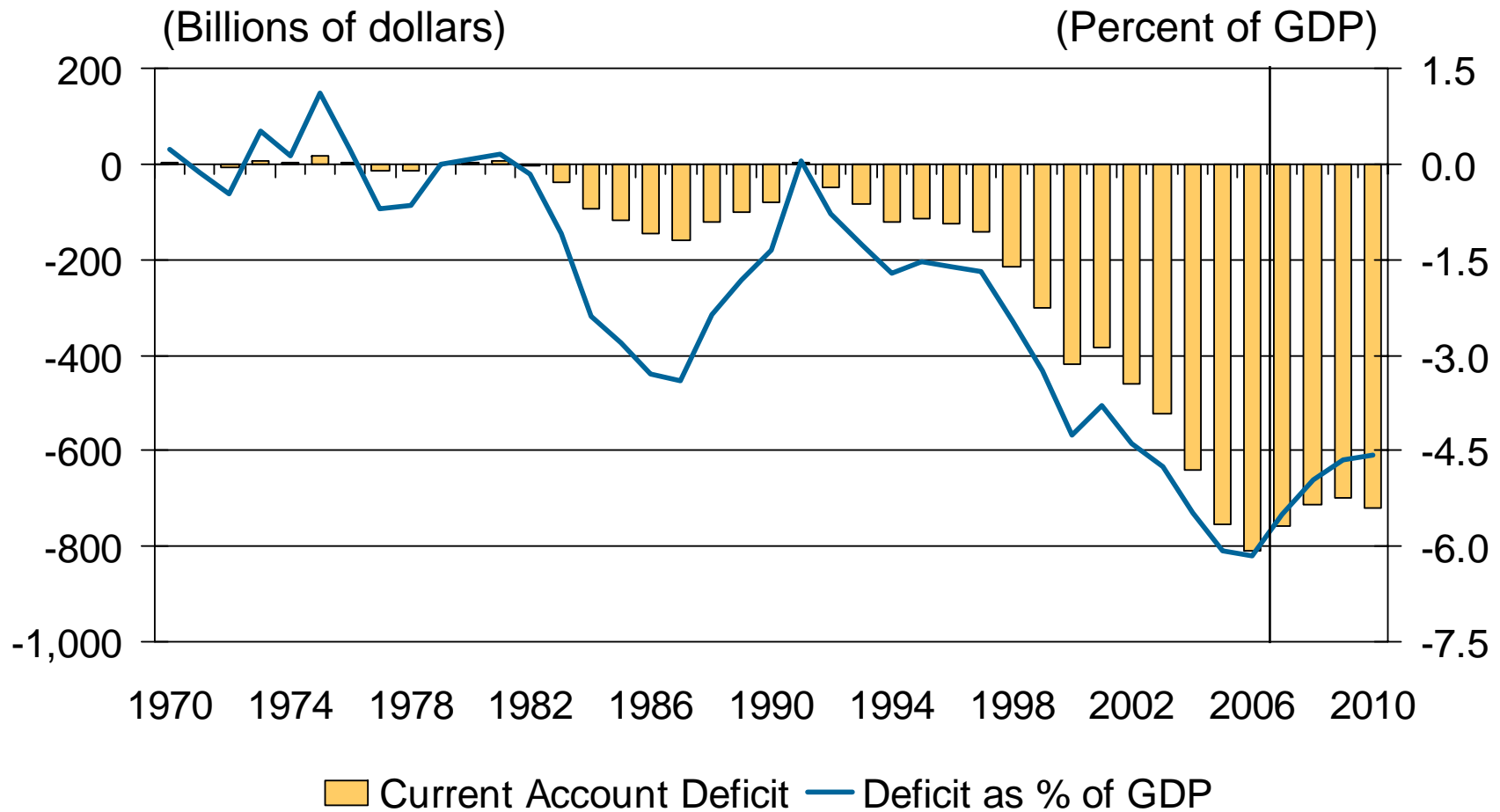


- U.S. Export Growth Less World Import Growth (Left scale)
- Real Exchange Rate (Right scale)

# *U.S. Imports Dampened By Decline in Home Furnishings Sales Due to the Housing Downturn*



# U.S. Current Account Deficit: Shrinking at Last

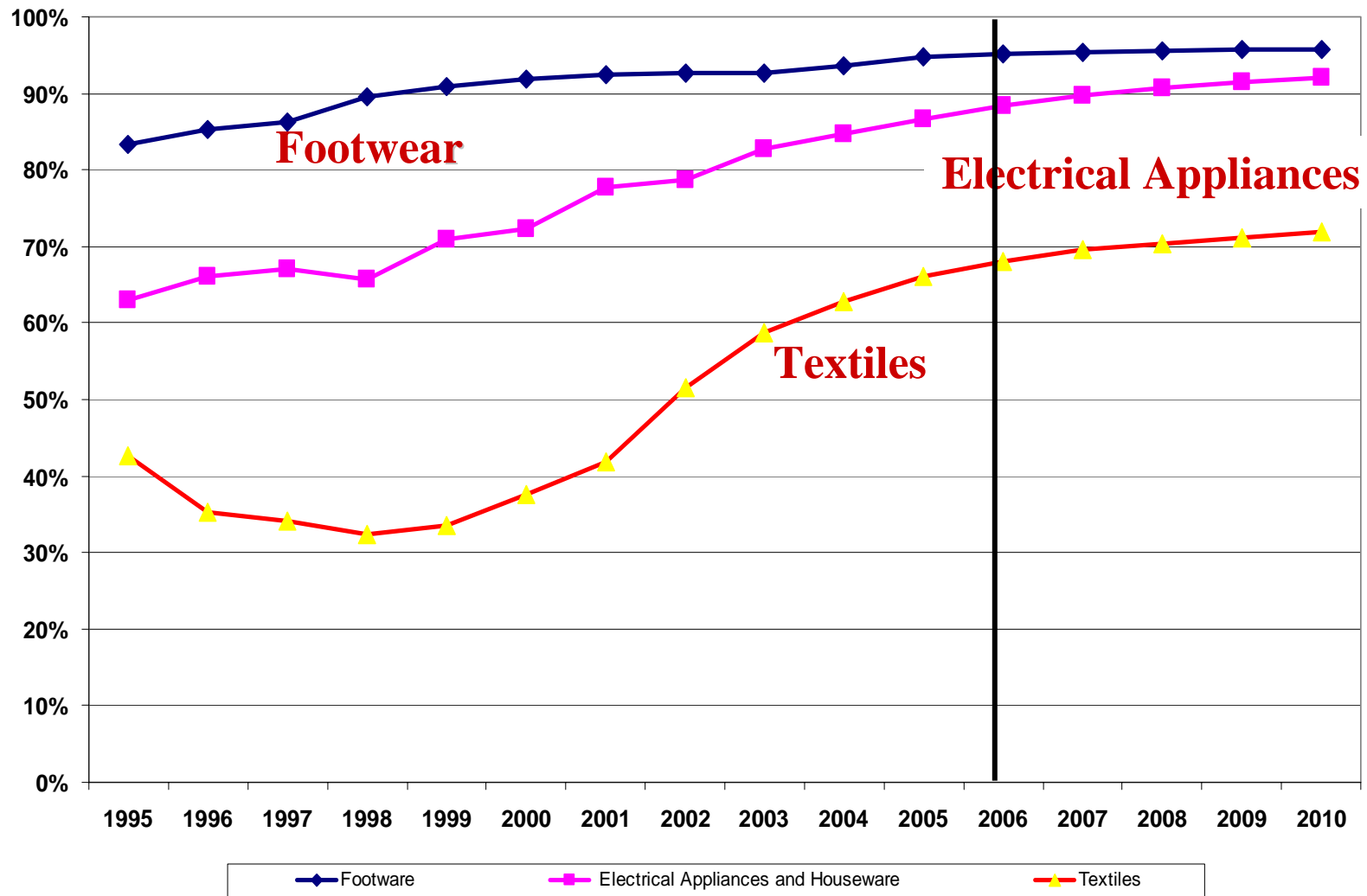


Source: Global Insight U.S. Macroeconomic Forecast Service

***The U.S. was the engine of world growth, but in 2006 this shifted to Asia, which is now supporting the world economy***

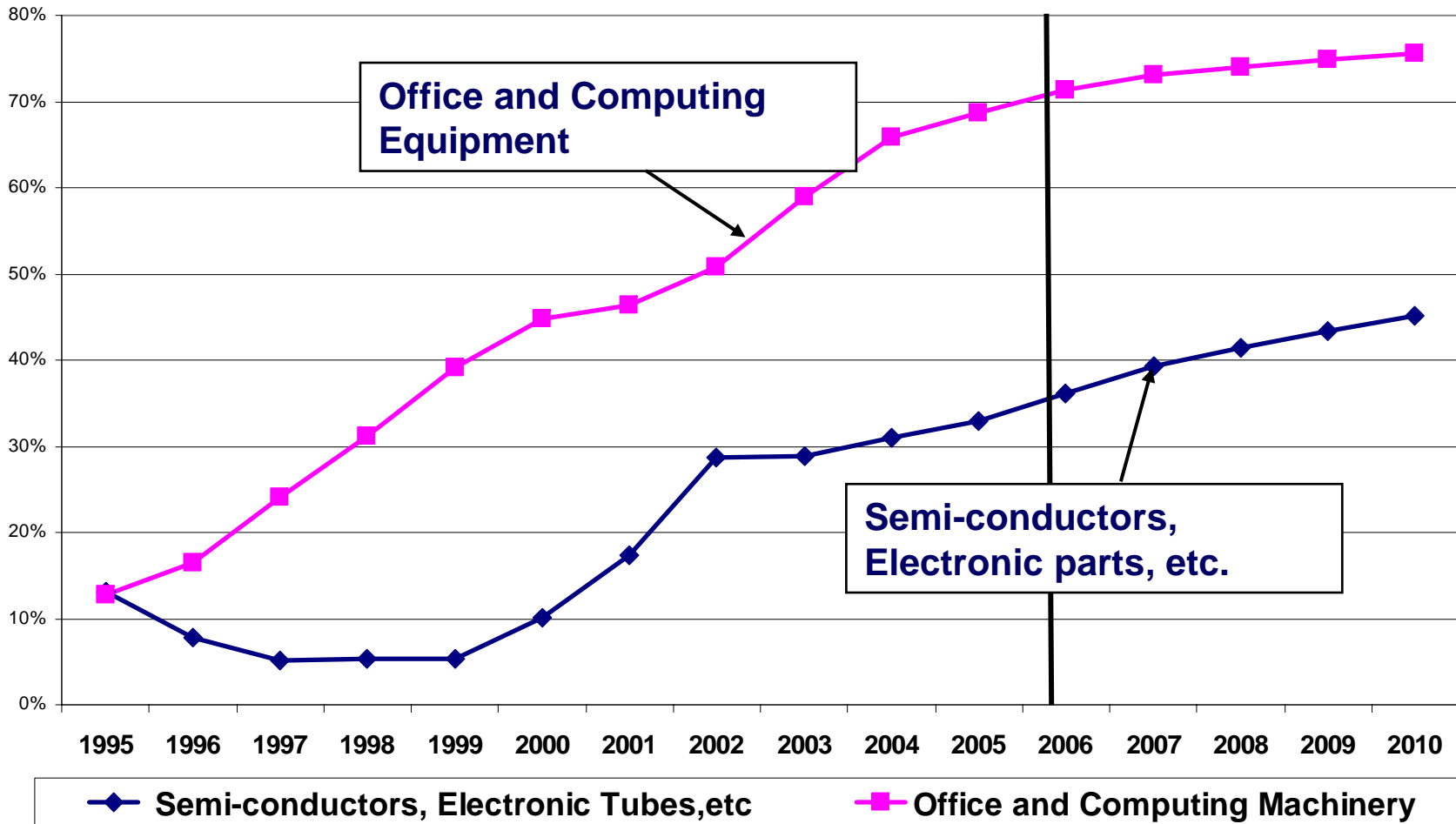
- **Inflation remains under 4% in most of Asia (exceptions include Indonesia, India, and the Philippines)**
- **High saving rates mean Asian economies will continue to be capital exporters – and potential investors in ports and transportation infrastructure**
- **China's economic boom should have a soft landing**
- **1/3 of the world's container trade is now intra-Asian**
- **North American trade with China is changing**

# China's U.S. market penetration in some sectors is reaching saturation ...



Source: Global Insight World Trade Service

# China has additional U.S. commodity market segments yet to penetrate



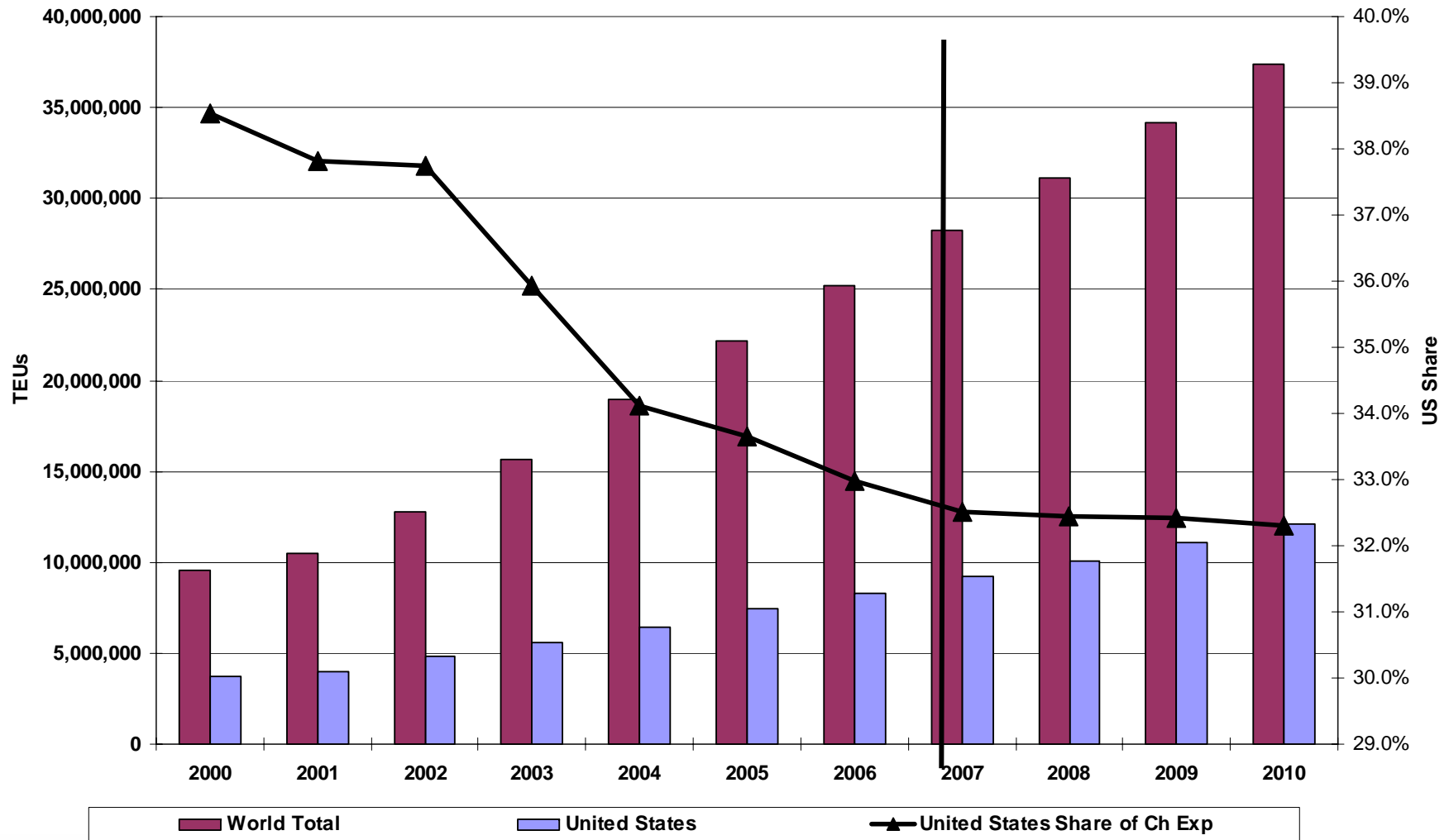
Source: Global Insight World Trade Service



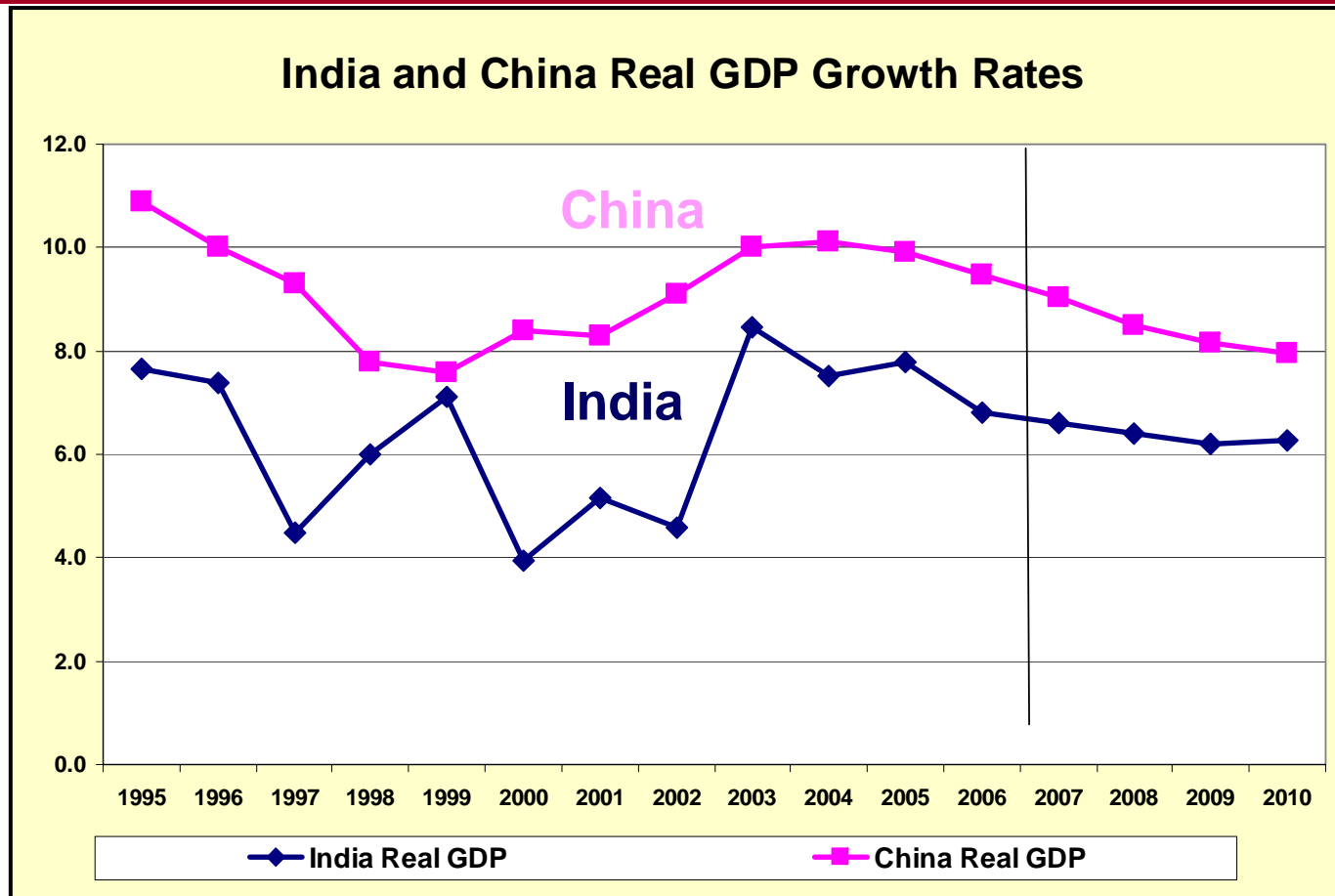
# As China broadens its markets, the U.S. becomes less important, even while U.S. - China trade volume triples

## US Share of China Exports

Source: Global Insight World Trade Service



# India's Growth Lags China's, though Still Strong



- India's annual population growth is 1.5%; Real GDP 6.8% in 2006
- India's container trade TEU growth averages 8% through 2010

# U.S. Import Growth Within the Hemisphere

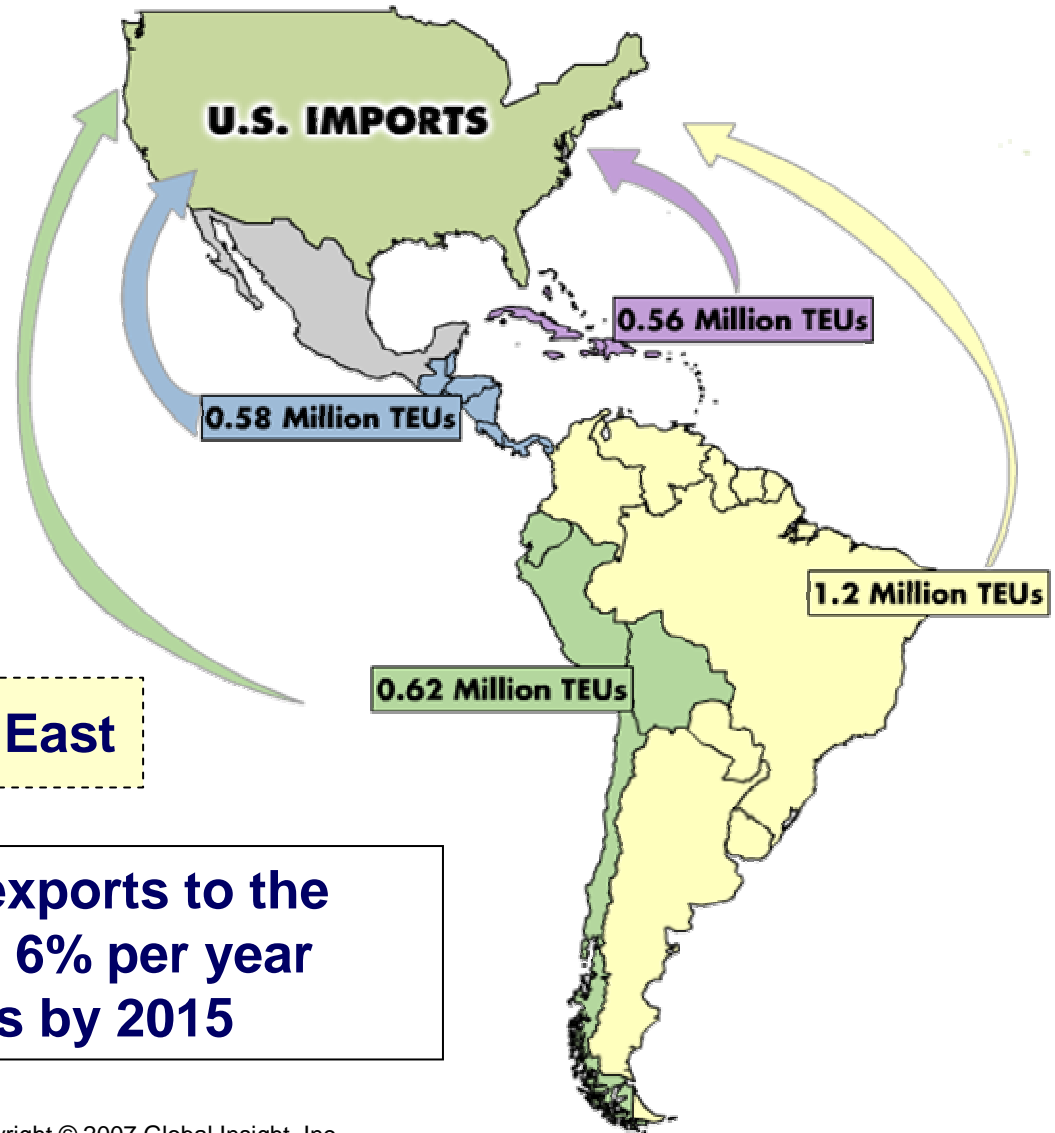
**2007** 3.2 million TEUs

**2015** 4.2 million TEUs

U.S. sees almost 4% average annual growth from Latin America

Far East

Compare to Latin American exports to the Far East averaging growth of 6% per year and reaching 1.4 million TEUs by 2015



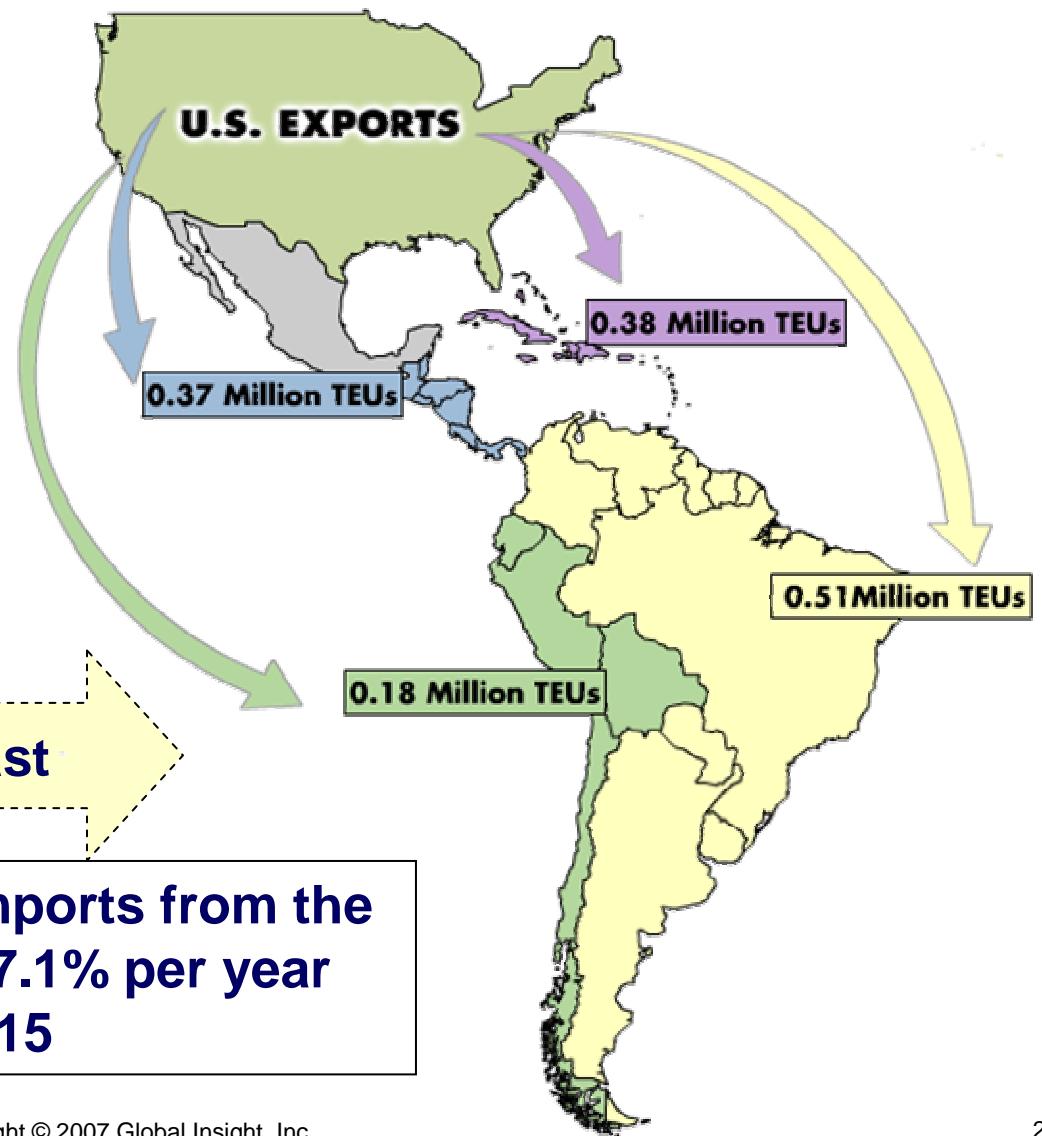
# U.S. Export Growth Within the Hemisphere

**2007** 1.5 million TEUs  
**2015** 2.0 million TEUs

U.S. averages 3%  
annual export growth to  
Latin America

Far East

Compare to Latin American imports from the  
Far East averaging growth of 7.1% per year  
reaching 2 million TEUs by 2015



# *Agenda*

- **Economic and trade outlook**
- **Implications for ports**

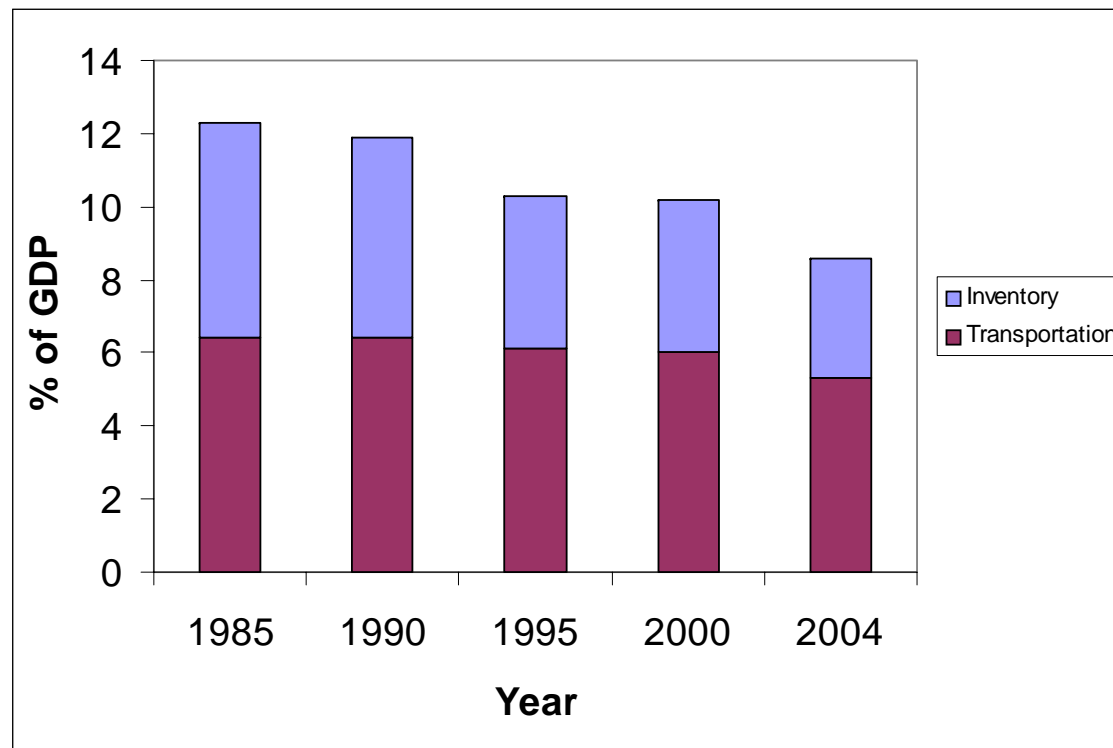
# ***Port Development to Handle Cargo Growth***

**Demand on North American ports for additional cargo throughput is still increasing, as well as for the connecting network infrastructure**

- **Economic geography, inside and out of the U.S., drives the geographic patterns of increased transportation system demand**
  - **affected by relative costs, performance and productivity of the available route & service options for delivering to end markets**
- **Supply chain demands affect gateway sea ports, inland freight corridors and warehousing / distribution center space needs**
  - **logistics choices are influenced by the combined efforts to minimize costs and risk and maximize reliability of delivery**

# Inventory Cost Share Down vs. Transportation

U.S. Logistics Costs as % of U.S. GDP



- Shippers think about logistics costs, not transportation costs
- As % of GDP, logistics costs have decreased 30% since 1985

Source: M. Turnquist, Cornell University

# ***Carrier's Reactions to Sustained Trade Growth***



- **Increased utilization of physical assets and people**
- **Increased energy consumption management**  
**More optimization**
- **Increased complexity of operations**

Source: M. Turnquist, Cornell University



## ***Demands on Ports to Adapt to Trade Growth***

- **Global trade expanding at a declining rate, yet a multiple of global GDP**
  - **Domestic flows increasingly linked to movements through ports and border crossings**
- **Shippers are reconfiguring their logistics networks for more international shipments, overseas control**
  - **Location, inventory and transport decisions**
  - **Benefits some ports yet others lose share**
- **Coordinated decisions across the supply chain**
  - **Among firms, not just within firms**
  - **Sharing data**

Source: M. Turnquist, Cornell University



# Conclusions

## ***Bottom Line***

- **World economic growth and trade growth are trending slower yet trade outpaces overall economic growth, reflecting globalization**
- **Asia, East Europe and Latin America will experience the strongest growth; Western European and Japanese growth will be slow**
- **U.S. trade will grow faster than in other developed countries, but slower than for the developing economies**
- **Pressures from growth in container traffic builds as it continues to outpace growth in the U.S. economy**
- **Ports benefit from increased exports and more balanced trade but providing the infrastructure and productivity to handle relentlessly growing trade will remain a significant challenge**



***Thank You***

**Paul Bingham**  
**(202) 481-9216 / (202) 481-9301 (fax)**  
**[paul.bingham@globalinsight.com](mailto:paul.bingham@globalinsight.com)**  
**[www.globalinsight.com](http://www.globalinsight.com)**