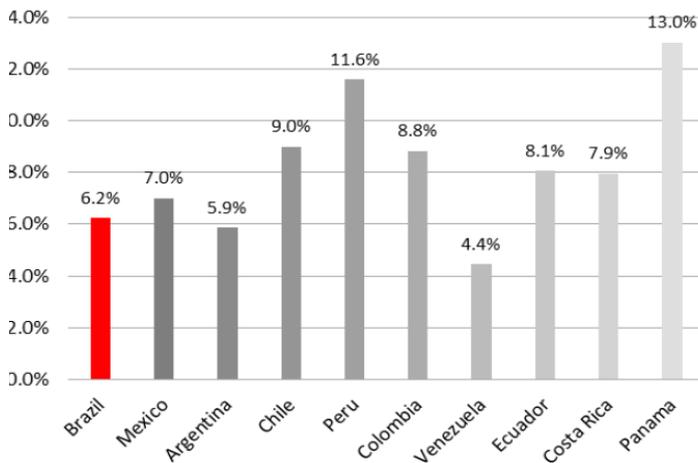


# LATIN AMERICA: A REGION OF OPPORTUNITIES AND CHALLENGES

*John Manners-Bell, Chief Executive Officer of Logistics Executive Group's research partner Transport Intelligence takes a closer look the Latin American logistics and supply chain landscape and its challenges following the release this month of the Ti 2015 Latin America Logistics Market report.*

**2013-2017 CAGR of top 10 LATAM contract logistics markets**



**There** has been much talk of the opportunities offered by the Latin American region. However, such talk is inevitably followed by a 'but'. Indeed, this is a region of fantastic opportunity. It is a leading exporter of agricultural and mining commodities, has a strong automotive sector and is a top location for pharmaceutical manufacturers. Global retailers are establishing in metropolitan areas of Brazil, Argentina and Chile, and the close proximity to the US, its large trading partner, is a huge benefit.

However, at the same time as this there are frequent truck strikes, rail networks that lead to nowhere, drug cartels, violence, bribery, corruption, debt and government regulations, all of which have choked trade and business investment.

In order to cope with this set of challenges, manufacturers and retailers have developed a unique range of supply chains. For many businesses, the opportunities offered by Latin America outweigh the negative.

To be successful, one adapts to the conditions. For example, shipping a 20-foot ocean container from Mexico or Colombia to Brazil costs about the same as shipping a container to Brazil from China or Hong Kong although the transit time, at 20 to 23 days, is some 10 days shorter.

## NEWS & EVENTS



### Upcoming Events

#### SCM Logistics World 2015

SCM Logistics World - Singapore, 23-25 June 2015. Innovating supply chain and manufacturing strategies, the event covers the end-to-end supply chain across all industries, involving all stakeholders in the value chain – from the suppliers to manufacturers, to distributors and finally to the retailer/customer. A 'must-attend' conference for all supply chain professionals.

[www.terrapinn.com/scmworld](http://www.terrapinn.com/scmworld)

### Global News

#### Participate the 2015 Employment Market Survey

Logistics Executive has launched its 2016 EMS survey. The survey is now in its 8th year and by contributing to this Survey, you will receive a complimentary copy one month prior to its market release planned for Mid-2015.

Please [click here](#) to commence the survey now. This survey will take 5-7 minutes to complete and your answers will remain completely anonymous. You will only be required to identify yourself if you wish to receive a complimentary copy of the final survey results. Your responses will not be directly linked to you as an individual.

#### New Report Released: Philippines Transport & Logistics 2015

Logistics Executive & Ti's latest report, Philippines Transport & Logistics 2015, offers unprecedented insight into the competitive environment for forwarders and logistics service providers operating in one of South East Asia's largest and fastest growing economies.

It includes analysis of which companies are already major players and what barriers market entrants face and features in-depth analysis of the road, rail, sea and air sectors including exclusive market sizing and demand forecasts.

For more information see: [www.LogisticsExecutive.com](http://www.LogisticsExecutive.com)

As a result, logistics providers such as DB Schenker are introducing multi-modal solutions to lower such costs as well as delivery times.

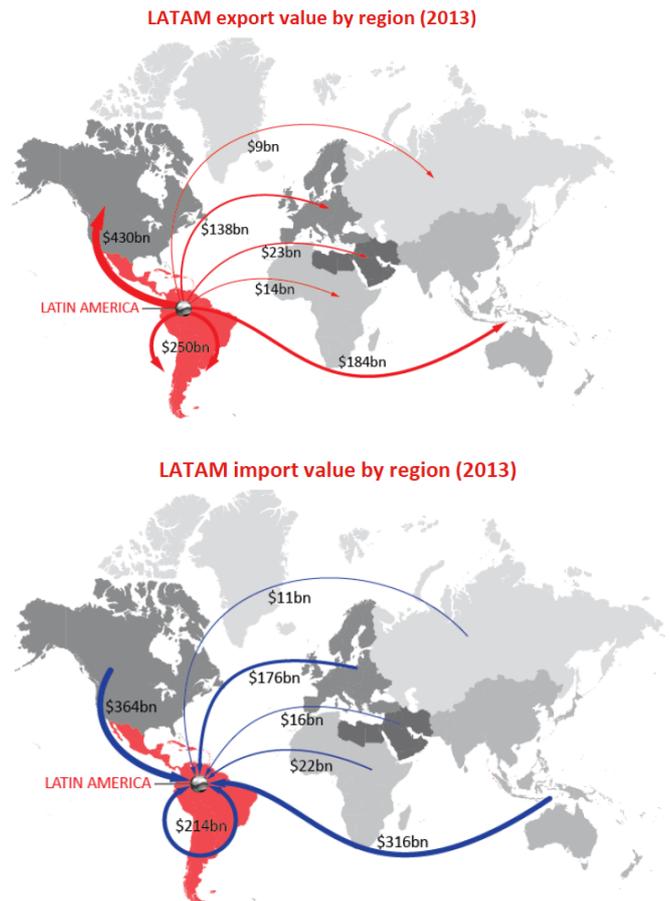
In the apparel industry, "fast fashion" retailer Zara makes design adjustments especially for Brazil, something that it does not do for most other countries. It has created a flexible local supply base, which allows it to quickly change its production plans in response to demand.

As a result of the varying complexities, most large companies operating in Latin America tend to segment their supply chain organizations into regional "clusters." These clusters are designed to balance market size, cultural similarity, and the cost and ease of moving goods across internal borders, within the cluster. A typical approach uses four segments: North and Central America (including the Caribbean countries and Mexico), Brazil, the Northern Andean Region, and the Southern Cone.

Trade within Latin America is on the rise, but the geographic makeup of the region, infrastructure problems and individual country border requirements and taxes make it problematic at best. This is also a major cause of the very high transportation costs.

Road conditions vary greatly. In some areas, especially near large cities, the highway is carefully graded and well paved. In some remote areas it is nothing more than a rough gravel road and a few sections are impassable for part of the year. Port and airport infrastructure problems are widespread and the congestion this has caused has been well documented.

Top trade partners are still Europe and the US, but China and other emerging markets, such as the Middle East and Africa, are increasing their market share. Mexico's good fortune continues to be its



Source: Ti calculations, using International Trade Centre data

reliance on the US market. Thanks to NAFTA, international companies have relocated to this country to take advantage of tax benefits and the close proximity to the US. In particular, the Mexican automotive and electronics industries have greatly benefitted as labour and transportation costs in Mexico have now become lower than in China. However, this reliance on the US can be a hindrance as Mexico found out during past economic downturns. Consequently it has forged numerous free trade agreements with other countries, as a means to lessen this dependence.

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**Cold Chain and e-commerce logistics – key sectors for the future**

Cold chain logistics plays an important role in Latin America and Caribbean, mostly within the agriculture and pharmaceutical industries. Like much of the infrastructure across the region however, cold chain capabilities are uneven.

For example, the majority of cold chain products are transported by air, but the capacity and infrastructure for this is lacking at airports. For many countries such as Brazil, the waiting period for clearance necessitates proper storage requirements.

Transporting agricultural products to airports or ports is also difficult due to road conditions and shortage of reefer trucks. Many small to medium-sized agricultural producers do not use refrigerated trucks and, as a result, spoilage is high by the time it reaches an airport or port. In addition, unreliable power sources outside urban centres and the diverse climate zones play a role in the poor transportation and storage of perishable items.

The growing need for cold chain logistics within the region is clearly apparent. Logistics providers such as DHL and UPS have established warehouse facilities to support this growing need. Also, in 2014, DHL Global Forwarding expanded its ThermoNet network of certified life sciences stations.

Meanwhile the spread and adoption of internet access has resulted in unprecedented demand for transportation and fulfilment services in the e-Commerce logistics sector despite the weak infrastructure. Part of the growth has been driven by the rise in affordable mobile devices.

Now this growth is coming further under threat due to the increase in government restrictions. These are



aimed at developing domestic markets, but are instead hindering the market’s development. As a result, cross-border trade may slow significantly in some countries.

Alibaba and Brazil’s post office announced a partnership to encourage trade between Brazil and China. eBay has developed a similar offering between Brazil and the US. Both of these offerings should bode well for e-commerce growth in Brazil, the region’s largest economy.

**Conclusion**

Amidst the criticism levelled at the development of the country’s ports, airports, railways and roads, it would be easy to forget how far the region has developed over the past decade.

In Brazil for example, intermodal connections between the key southern Brazilian cities of Sao Paulo, Rio de Janeiro and Belo Horizonte have improved significantly, as have connections outside that triangle.

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The port of Manaus continues to be a focus of South American shipping and a free trade zone and industrial park has opened in the area. Assembly plants for many multinational companies, including electronic giants Philips, LG Electronics, Samsung, Motorola and Ericsson, have expanded in the Manaus area.

However Brazil also exemplifies the weakness of the region. Of the transport infrastructure projects planned to facilitate the World Cup and Olympics, it is estimated that half of the projects have been abandoned. These projects are essential to reducing the proportion of GDP which is spent on logistics, presently between 15-18% - far higher than in developed countries.

At the same time, only 1.5% of GDP is invested in transport infrastructure compared to a global average of 3.8%. A key reason for the lack of investment is the level of bureaucracy associated with planning.

If the region is to fully progress it must learn the lessons provided by China, one of the region's largest trading partners. The Chinese government understood that improving its connectedness with the rest of the world was critical to its long term economic development. The Latin American economy badly needs a shot in the arm to cope with the forecast downturn and investing in transport would be a key way in which it could boost its prospects.

The private sector needs to be involved in these investments, but for more partnerships to develop governments in the region have to create an attractive environment free from corruption and political intervention.

*Footnote: Partnering in 2015, Transport Intelligence and Logistics Executive Group provides a multi-country, multi-disciplinary and multi-lingual extension to Ti's capabilities. Transport Intelligence is the world's leading provider of market research solutions to the global logistics industry.*

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John Manners-Bell, Honorary Visiting Professor at London Metropolitan University, started his working life as an operations manager in a freight forwarding and road haulage company based in the UK. Prior to establishing Transport Intelligence, he worked as an analyst in consultancies specialising in international trade, transport and logistics. He also spent a number of years as European marketing manager for UPS Supply Chain Solutions working at locations across Europe including France, Netherlands and Germany. He holds an MSc in Transport Planning and Management from University of Westminster and is an Associate of King's College London. He is a Fellow of the UK Chartered Institute of Logistics and Transport and Chair of the Supply Chain and Logistics Global Advisory Council of the World Economic Forum.

John has travelled widely, undertaking research and speaking at conferences in countries including China, Hong Kong, India, Japan as well as in the Middle East, USA and extensively throughout Europe.

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