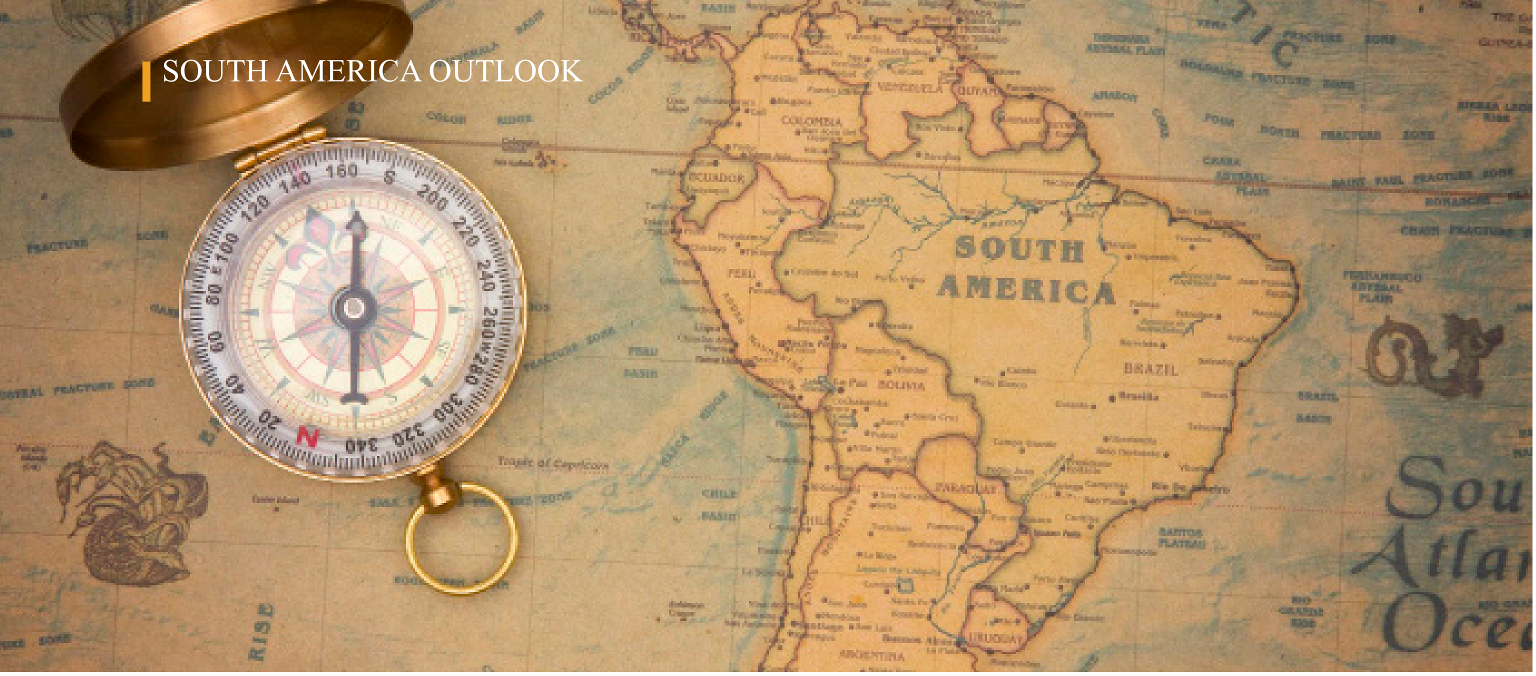

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SOUTH AMERICA OUTLOOK

by TR Cutler

The time was when this continent was an economic powerhouse. It is graced with natural resources and was home to millions of young, educated people. But it has suffered political upheaval over the last several decades, putting it in a situation where such young people are leaving for greener pastures. The continent is by no means dormant and has for some decades been an economic partner of the U.S., and more recently of China.

Needless to say, there's a lot to write about South America. About its politics, its business, those who invest in it, and why. What natural resources they have there, and who's mining them? It's a continent with problems that will look for and accept help from whoever fairly offers it. We will cover South America monthly, and from all these aspects. [Editor]

Nearshoring from Colombia versus Asia

The Nearshore Company Co-CEO Jorge Gonzales argued that the advantages of manufacturing in Asia — traditionally compensating for its disadvantages — are now diminishing. He suggested that executives must reconsider the long-term manufacturing competitiveness of China, an historically low-cost country currently under pressure as costs rise quickly. China's manufacturing output fell to its lowest level in three years. These data were the latest sign of economic pain. Dozens of cities, including Shenzhen and Shanghai, were partially or fully sealed off in recent months and these restrictions have disrupted global supply chains while goods pile up at the world's busiest container ports. No longer are Asian countries that previously offered enormous cost advantages able to compete. China is increasingly expensive; Vietnam is equally prohibitive.

Costs coupled with the recent Russian invasion of Ukraine forced business executives to consider whether the era of globalization must be reevaluated. According to financial intelligence firm Sentieo, mentions of nearshoring, onshoring, and reshoring during corporate earnings calls and investor conferences have increased 500% since the beginning of the pandemic. Gonzales argued that the promise that Asian manufacturing held for American businesses since the 1980s has turned into a proverbial nightmare for the following reasons.

Lengthy Shipping Times - When

Shanghai shut down, shipping from China to the West Coast was taking more than a hundred days; forty days more than before COVID. Even when ports reopened, all shippers and recipients were dealing with long shipping queues, massive congestion, and labor shortages. The result: Asian shipping schedules are increasingly unreliable.

Costly Shipping - Worldwide, rates for shipping a 40-foot container skyrocketed from $1,600 in early 2020 to $7,800 this year, a five-fold jump. But the Asia-Pacific region has suffered most with $15,000 costs increasingly common to keep up with demand. Despite prognostications of worldwide inflationary pressures, there is some indication these high prices from Asia are softening. Part of the cost equation is the added price pressure on bunker fuel coming from the war in Ukraine. Fuel prices were already high due to the pandemic, but have increased almost 40%.

Expensive Business Travel - Businesses that manufacture in Asia need their executives to regularly inspect production and meet with suppliers and partners. Air travel comes at a cost, which is expected to continue rising due to increasing fuel costs and pilot shortages. According to Hopper Price Tracker, in June 2022, the average international airline ticket cost $836, an increase of 28% from June 2020. Analysts expect prices to rise 3.4% in 2023.

Pricey Labor - Inexpensive labor was the carrot that got businesses to move production to Asian countries forty years ago. Now the average labor wage per hour in China is consistently higher than other manufacturing-focused countries, including Mexico. Mexico has the cost advantage now and will likely have it for some time according to Statista in 2020. Chinese workers earned $6.50 an hour (an increase of 13% from 2019). Meanwhile, Mexican workers earned $4.82 (an increase of 4% over the previous year).

Colombia Most Likely Nearshoring Prediction - According to Rafael Atehortua, LATAM Manager for the Manufacturing Media Consortium, The Road Freight Transport Market Share in Colombia is expected to increase by USD 1.30 billion from 2021 to 2026 with an accelerated CAGR of 4.58%, according to the recent market study by Technavio.

Atehortua reviewed the report, including the following key companies: CLM Cargo, Consignaciones Transitos y Transportes Internacionales SA, Coordinadora, Deutsche Post AG, DSV Panalpina AS, Logistics Plus Inc., OPL Carga SAS, TCC Inversiones SA, Transportes Sanchez Polo, and Transportes Vigia SAS among others. Colombia is fragmented and the vendors are deploying growth strategies such as expanding geographical reach and realigning product offerings to compete in the market.

CLM Cargo offers road freight transport solutions for logistics, ocean freight, air freight, ground transportation, customs broker, warehousing and storage, and courier services.

Consignaciones Transitos y Transportes Internacionales SA offers road freight transport that provides air transport, marine transport, ground transportation, customs services, logistics and distribution, and special transport.

Coordinadora offers road freight transport that provides services such as request free pickup, delivery times, merchandise shipping service, sending documents, messaging and stationery filing, international deliveries, bulk load, chemical and chemical dangerous goods, and online service.

The transcontinental country of Colombia covers South America and a small portion of North America. Bordered by the Caribbean sea and the Pacific Ocean on its northern and western coastline, Colombia has five major ports (Colombian Buenaventura Port, pictured) and around 15 river ports. Atehortua suggested, “As more North American companies turn to nearshoring, Colombia is poised for even greater growth. The wait time from Asia is both untenable and prohibitively expensive. Products from Colombia to any United States port are less than a week away.” Colombia is rich in natural resources and has a prosperous agricultural and manufacturing sector. Free trade agreements with developed nations have allowed it to diversify its foreign trade and earn handsome foreign exchange revenue. The government has invested significantly in expanding port facilities, free trade zones, and infrastructure development to attract businesses and foreign direct investment. Tourism has also boosted economic growth by generating employment opportunities. Colombia has major trade relations with the United States, which will grow even stronger. ■