

# Unleashing the rest of Latin America's potential

Walter Kemmsies, *chief economist,*  
Moffatt & Nichol, New York, United States of America

A rising tide lifts all boats, but if some of them have short anchor chains they will eventually sink as the water continues to rise. Latin American economies have benefitted significantly from strong economic growth in Asia, driven primarily by China. Those who have been able to develop infrastructure to support freight movement have benefitted more than others. However, further investment and development is needed, particularly in Brazil which has lagged behind other countries in terms of infrastructure and benefitting from growth in global trade. Ports will have to be able to handle larger ships and inland connectivity needs to improve. If these investments are made then Latin America, like Asia, could potentially see very strong economic growth.

Over the last two decades exports have generally increased the contribution of world trade to Latin America's economic growth (see Figure 1). Countries like Chile, Mexico and Ecuador have been in the lead. Chile began privatising its freight infrastructure in the early 1990s and has benefitted the most. Brazil has been the laggard.

## Infrastructure investment

The list of needed infrastructure improvements in Latin America is substantial. Most freight is hauled inland by truck inland and by barge, given that the populations tend to be concentrated near the coasts. Roads are being improved with extra lanes and better drainage to make them more passable during the rainy season.

Major rail investment policies are also being deployed. However, progress on this front is slow. Key highways are still congested, particularly during peak season periods such as the soy harvests in Brazil. It could be argued that Mexico is in the lead, with substantial public and private funds having been invested in highways and railways. Mexico also deserves special recognition for the engineering prowess it deployed in constructing roads over mountain ranges that connect its Pacific Coast ports, such as Mazatlan, to major manufacturing centres such as Durango and Monterrey.

Although Brazilian ports have developed widely and have received private investment to reach international standards, the dwell time for containers in the more congested port areas is still 21 days, while internationally this would be two to four days. Truckers may also need to wait 12-24 hours outside of ports, leading to extra costs and negative effects for all cargo moving through the ports, including break-bulk and finished vehicles.

Most Latin American ports, and in particular those that handle containers, are located in cities that were founded centuries ago with narrow crowded streets. Improvements for truck access are sorely needed, as many of these ports will not be able to develop rail access very easily.

Cargo handling after it is discharged from the ship is not only impacted by poor surface transportation but also by customs clearance practices and inadequate inland storage. International distribution centres, for deconsolidating cargo, and warehouses appropriate for handling specific types of freight are not widely available in Latin America. This can stymie development of new ports or terminals.

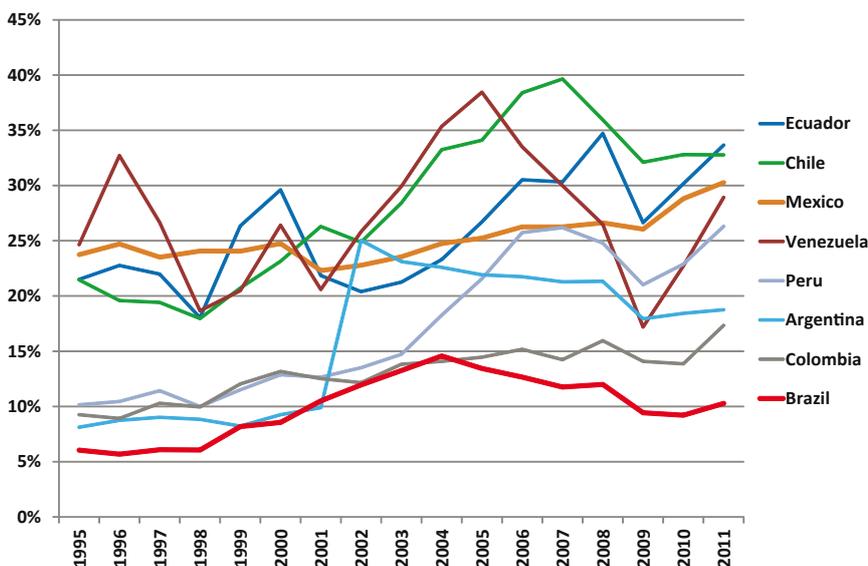


Figure 1: Exports as a percentage of GDP. (Source: UN Comtrade, IMF, Moffatt & Nichol)

## The impact of inefficiency

One often hears at industry conferences that average wait time for vessels arriving in Latin American ports can vary, among the worst cases is Santos where a three-day wait is not uncommon. It can take about seven days to get shipments into and out of the terminals. However, this is set to change as new terminals are deployed and near-dock rail is developed.

Port productivity varies greatly across Latin America. There are many reasons for this, for example, whether the ports have sufficient landside gantry cranes with the capacity needed to handle the increasingly larger vessels that call at Latin American ports to customs-related delays. This can have negative impacts on equipment productivity.

Inefficiency in the freight movement supply chain causes congestion and therefore costs rise. Cost increases are eventually passed on to consumers and drive inflation. In order to avoid inflation, economic policymakers resort to increasing interest rates in order to slow the economy down. It is estimated that given its infrastructure, Brazil's economy cannot grow faster than three percent without inflation picking up. Inadequate infrastructure is thus an impediment to economic growth.

## What is changing?

Latin American policymakers are aware of the importance of infrastructure's role in economic growth. Chile's example is being emulated in Peru and Colombia. Both countries are seeing substantial investments in port infrastructure. In the case of bulk commodities this often involves development of mine to port flow paths, usually including rail construction. Regulatory impediments are also being addressed. A good example of that is the new federal ports law in Brazil.

Brazil, which has been a laggard, is restructuring the road, rail, seaport and airport sectors. President Rousseff has announced a series of reforms, not just of the transportation sector but also energy, in order to lower the high cost of doing business in Brazil, popularly referred to as 'custo Brasil'. This is not a simple exercise. While more

investment and therefore competition is being encouraged, it cannot be done in a way that negatively impacts existing operators. If so it will be hard to encourage investors to enter this sector. However, a large number of new concessions are likely to be offered in the near term, and assuming that investors believe they will be able to make reasonable returns on their investments, there should be a significant increase in port capacity.

Across the region there is a lot of focus on dredging. Policymakers, port authorities and terminal operators are acutely aware that about half the global order book for container vessels is for those with a capacity to carry over 10,000 twenty-foot equivalent units (TEU). These ships require 50-feet of water depth.

Ports in Latin America that do not plan for larger vessels will not be able to benefit from the expansion of the Panama Canal. However, plans to take advantage of that do not always involve channel dredging. In Brazil's case this has also taken the form of supporting development or improvement of inland waterway terminals. Brazil is close to becoming the largest soy exporter in the world and is the largest source of China's imports. The soy is grown in the rural interior of the country and is trucked over difficult roads to ports in the south where it is loaded onto bulkers that travel to China via the Cape of Good Hope. The new plan is to develop terminals on rivers that feed into the Amazon River. The soy can be transhipped on the Amazon to large vessels that will be able to transit the Panama Canal.

## In conclusion

Given insufficient capital and complex regulations, one can argue that Latin America has benefitted as much as it could have from the growth in world trade in the last few decades. However policymakers seem to have a much better awareness and grasp of the issues these days. This justifies optimism in regards to the outlook for the Latin American port industry and economy as a whole.

## About the author



As Moffatt & Nichol's chief economist, Dr. Walter Kemmsies directs and oversees the firm's work related to

market studies, financial analysis, global trade and economic trend forecasts. He has led projects ranging from strategic development plans for ports to merger and acquisition transactions of port-related entities and terminal-operator expansion decisions. He is also an advisor to executives at various port authorities and major transportation and manufacturing companies. Dr. Kemmsies is a registered financial analyst with a strong background in industry analysis. He has presented his research at major industry conferences and international economic forums.

## About the organisation

Moffatt & Nichol is a global infrastructure adviser specialising in the planning and design of facilities that shape our coastlines, harbours and rivers, as well as being an innovator in the transportation complexities associated with the movement of freight. Operating out of 30 offices around the world, the firm provides expertise in economics and cargo forecasting, project financing, and port and terminal planning and design. The firm also offers fully integrated planning and design services in maritime structures; urban waterfronts and marinas; coastal, environmental and water resources; transportation and intermodal infrastructure; energy; and inspection and rehabilitation, as well as state-of-the-art capabilities in modelling and simulation.

## Enquiries

Moffatt & Nichol  
Walter Kemmsies, PhD  
Tel: +1 (212) 768 7454  
Email: [wkemmsies@moffattnichol.com](mailto:wkemmsies@moffattnichol.com)  
Website: [www.moffattnichol.com](http://www.moffattnichol.com)