

SECTION B6

BUSINESS DEVELOPMENT OPPORTUNITIES

This study makes a clear case that the Alliance Region is the gateway for U.S. trade with Latin America, as well as to other global markets. Aside from the obvious strategic significance of the LATTs Transportation System to economic development and trade within the Alliance and elsewhere in the United States, this presents significant business opportunities for the Region.

As trade with Latin America and the rest of the world grows over the next twenty years, so will the amount of trade that passes through the Alliance Region. This trade passing through the Alliance presents a business development opportunity for the Region.

TARGET THE INCREMENTAL GROWTH COMPONENT

The Alliance is one of the fastest growing industrial regions in the nation. Lower production and investment costs, as well as other advantages, has resulted in a robust industrial and high tech investment climate in Alliance states. The incremental growth component (above current levels) in future trade passing through the Region represents additional production capacity that has not been invested (**Exhibit B6-1**). Because capital is free to flow to any location in the United States, the jobs and private investment dollars associated with additional trade can go anywhere in the U.S.. Although the forecasts produced by LATTs generally follow the same patterns as historical trade patterns¹, these patterns can change due to a variety of reasons, including trade policies, mode diversion policies, changes in transportation costs across modes, changes in production costs, or aggressive industrial recruitment programs (incentives).

This section of the report focuses on the growth component of the LATTs forecast to identify business development opportunities for the Region.

GROWTH IN EXPORTS PASSING THROUGH THE ALLIANCE REGION

Although any form of trade generally creates jobs and investment, exports present a rational business development target. Exports typically offer the greatest potential for job creation, particularly exports passing through the Region (pass-through exports) that are produced elsewhere in the U.S.

Alliance exports are expected to grow from a current level of approximately 290 million tons to 660 million tons in 2020, an increase of 370 million tons. This represents over \$610 billion in value in 2020. (**Exhibit B6-2**)

¹ Changes in trade patterns for the LATTs forecasts (for Latin America and other World Regions) are based on economic based trends in domestic and international production and consumption. However, the LATTs forecasts were not reallocated among gateways (ports, airports, border-crossings) or among origins and destinations based on above-trend scenarios (e.g. due to wholesale mode shifts, trade policies, etc). The "High Trade" scenario is based on more aggressive assumptions about trends. Trade patterns were not reallocated.

Exhibit B6-1
INCREASE IN PASS-THROUGH TRADE REPRESENTS A BUSINESS OPPORTUNITY FOR THE ALLIANCE

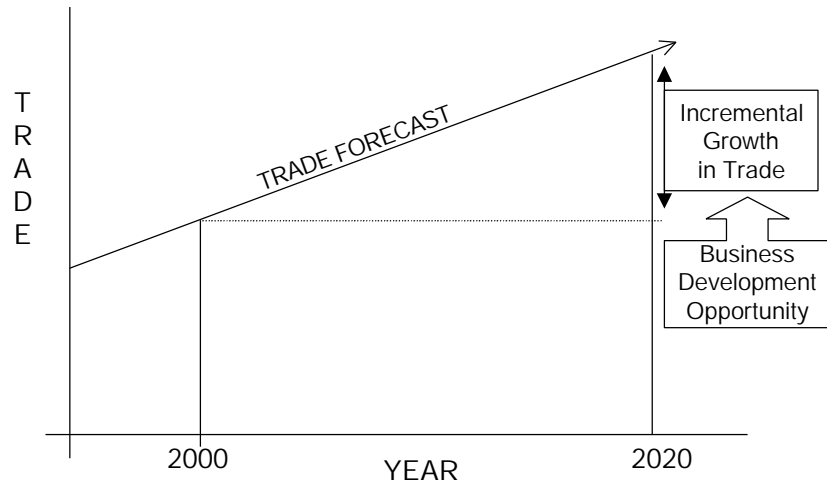
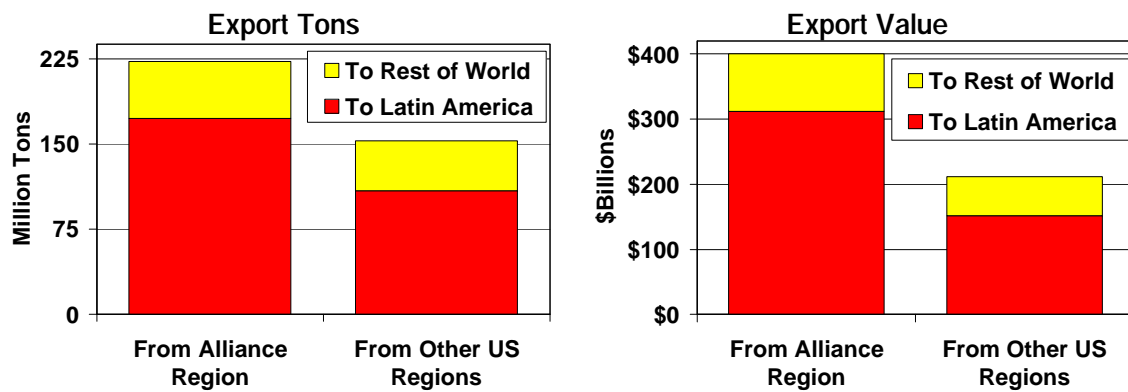


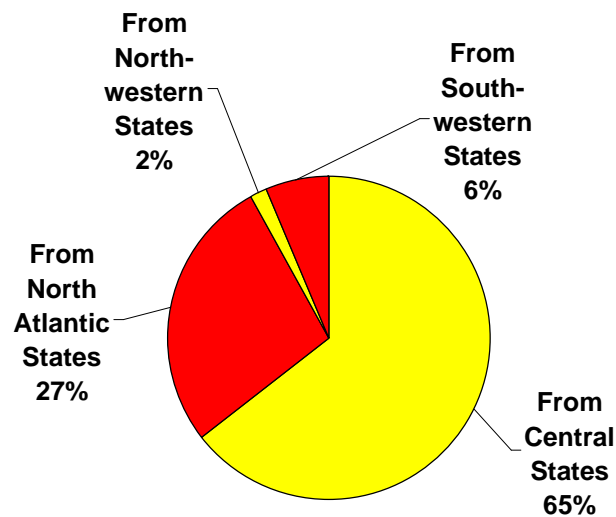
Exhibit B6-2
NET INCREASE IN FUTURE EXPORTS THROUGH THE ALLIANCE



Domestic Origin/Destinations

Based on current patterns, over forty percent of the increase in export tonnage (153 million tons) is expected to originate in other U.S. states, representing over \$210 billion in export value passing through the Region. The majority (65%) of this pass-through export growth is from the Central States (Midwest). Another 27% is from the North Atlantic states (**Exhibit B6-3**).

Exhibit B6-3
ORIGIN OF EXPORTS FROM OUTSIDE THE ALLIANCE
(NET INCREASE IN FUTURE EXPORTS THROUGH THE ALLIANCE)

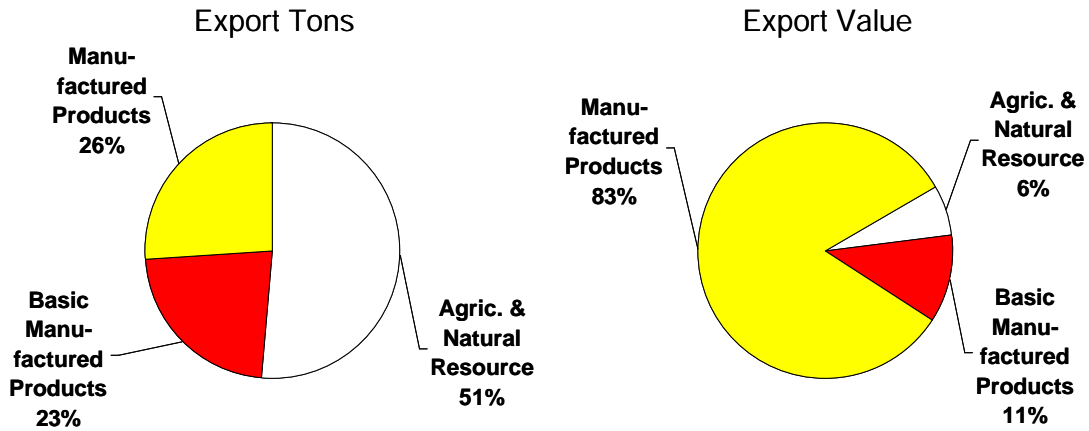


Export Sectors

An evaluation of the specific export sectors reveals that half of the tonnage (51%) of the pass-through export growth are agricultural and natural resource products (bulk products), specifically farm products (grain) and non-metallic minerals such as phosphates. The other half of the tonnage are expected to be basic manufactured products (chemicals) and manufactured products (food products, transportation equipment, machinery and industrial equipment, pulp and paper, electrical machinery, and fabricated metals, other). (**Exhibit B6-4**)

From a value standpoint, over 80% of the pass-through export growth component is expected to be manufactured products (machinery and industrial equipment, transportation equipment, electrical machinery, food products, rubber and plastics, fabricated metal products, instruments, and other). These types of exports are typically associated with high paying jobs.

Exhibit B6-4
MAJOR EXPORT SECTORS THAT PASS THROUGH THE ALLIANCE
(NET INCREASE IN FUTURE EXPORTS THROUGH THE ALLIANCE)

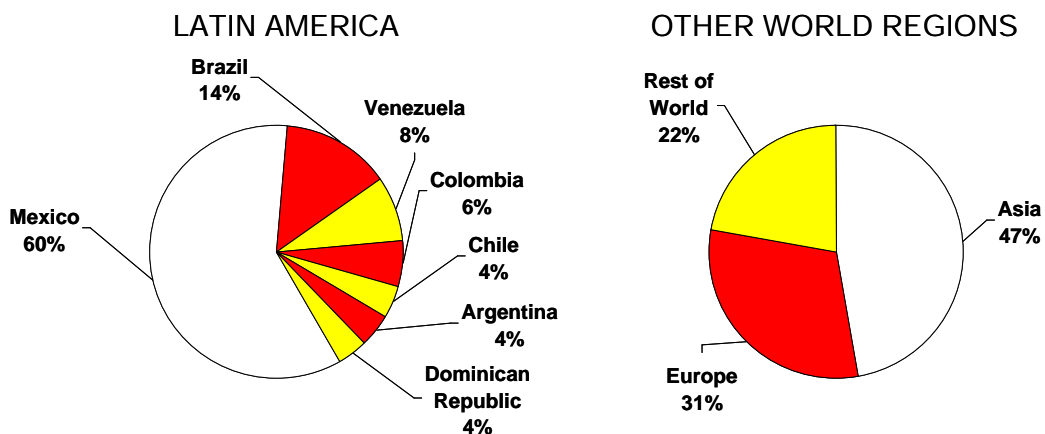


Eleven percent of the value of the pass-through export growth component are basic manufactured products (chemicals), and the remainder are agriculture and natural resource products (farm products, non-metallic minerals, metallic ores, forest products and coal).

Global Export Markets

It is forecast that over two-thirds of the growth in pass-through exports will be to Latin American, particularly Mexico, Brazil, Venezuela, Colombia, Chile and Argentina, with the remainder going to other global markets like Asia and Europe (Exhibit B6-5).

Exhibit B6-5
FOREIGN MARKETS FOR EXPORTS THAT PASS THROUGH THE ALLIANCE
(NET INCREASE IN FUTURE EXPORTS THROUGH THE ALLIANCE)



AN OPPORTUNITY FOR THE ALLIANCE

It is clear from the data that while half of the future growth in pass-through export tonnage is grain from the central region states (Midwest) and other bulk materials, a dominant share of the value of the pass-through export growth are high value manufactured products, specifically manufactured (value-added) exports from the Central Region. While grain production is essentially a captive industry (not footloose), the value-added exports represent yet to be created jobs and private investment dollars that could well be attracted to the Alliance Region.

THE ALLIANCE NEEDS TO REMAIN COMPETITIVE

It is important to point out that the export forecasts for the Alliance Region (exports produced in the Region that are shipped through Alliance gateways) are comparable to the previously discussed pass-through exports – high value manufactured products. Moreover, the jobs and private investment associated with these exports have not yet been invested, despite being shown by the LATTS forecasts as being produced in this Region. The jobs and private investment dollars associated with additional trade can go anywhere in the U.S..

The Region's ability to actually attract the jobs and private investment dollars is based on its overall competitiveness. Competitiveness is a function of a variety of factors, one of which is transportation – multimodal transportation facilities (modal choice), transportation services (quality and reliability) and transportation costs. Developing and sustaining a reliable multimodal trade transportation system is a key step towards competing for the business opportunities outlined herein.

LATIN AMERICAN EXPORT MARKETS

Latin America offers significant export opportunities for the Alliance states. However, each Latin American country is unique. The following is a summary of economic highlights for specific Latin American countries. Further discussion of business opportunities with Latin American countries is contained in Appendix II.

▶ **ARGENTINA**

- B Recent economic reforms have set the stage for stable economic growth in the medium term; real GDP growth will average 5.1% over the next 23 years.
- B With the highest nominal GDP per capita among Latin American countries and continued strong growth, Argentina has strong market potential.

▶ **BAHAMAS/JAMAICA**

- B The combined economy of the Bahamas and Jamaica will grow at an annual average rate of 2.6% over the forecast period.

▶ **BOLIVIA**

- B Economic reforms will enable Bolivia to achieve strong real GDP growth in the short term, after which it will moderate to an annual average growth rate of 5.1% over the forecast period.
- B Bolivia is one of the poorest countries in Latin America. Strong GDP per capita growth will begin to improve the situation.

▶ **BRAZIL**

- B While economic stabilization has brought the economy under control and growing at just over 4%, it remains on uncertain foundations.
- B Brazil represents one of the largest Latin American markets, with one-third of Latin American population and over 20% of all Latin American trade.

▶ **CHILE**

- B Chile is forecast to have the highest GDP growth rate among Latin American countries, at 5.6% annually through 2020.
- B Chile continues to expand trade liberalization

▶ **COLOMBIA**

- B Colombia ranks second in real GDP growth in Latin America, averaging 5.3% through 1997-2020.
- B Membership in several trade agreements will support trade growth of 8.5% through the forecast period.

▶ **CUBA**

- B Cuba is recovering from the deep recession induced by the loss of Soviet aid. Annual economic growth of 2.3% is expected over 1997-2020.
- B Tourism has become the most important sector in Cuba.
- B Exports are forecast to grow strongly as economic reform eases trading practices.

▶ **DOMINICAN REPUBLIC**

- B Real GDP growth will average only 2.1% annually through 2020.
- B Extremely low incomes and a nominal GDP per capita growth that lags inflation limit consumer market potential.

▶ **ECUADOR**

- B Economic concentration in natural resources and political instability limits growth to 3.9% through 2020.
- B With slow nominal GDP per capita growth and high inflation, GDP per capita levels will remain low.

▶ **FRENCH GUIANA / GUYANA / SURINAME**

- B These three countries, dependent on agriculture and mining, will experience relatively slow economic growth over the LATTTS forecast period.

- B Evidence of French Guiana's French department status is seen in its high GDP per capita, while its neighbors are among the poorest in the region.

▶ **HAITI**

- B Extreme poverty, lack of economic reforms, and political quagmires hold growth to an average 1.3% over the forecast period.
- B Haiti is dependent on imports of food and manufactures, two-thirds of which come from the U.S.

▶ **MEXICO**

- B Mexico is almost completely recovered from the peso crisis in 1994, and economic and political practices position it for stable, sustainable growth in the future.
- B Mexico's membership in key trade agreements and rapid growth in trade will propel it to account for almost half of all trade in Latin America by 2020, more than double its share of population or real GDP.

▶ **PANAMA**

- B Panama ranks fifth in economic growth among Latin American entities, with an average annual growth rate of 5.0%; however, this may be threatened by increasing political risks in the short term.
- B Panama has positioned itself as a key re-exporter of manufactured goods, pushing up nominal export growth to a leading rate of 12.6% per year.

▶ **PARAGUAY**

- B Economic reforms and integration within Mercosur contribute to an average annual expansion of 4.9% in the economy.

▶ **PERU**

- B Substantial improvements have been made in Peru's economic growth and inflation, but Peru still faces high medium-term risk to continued achievements.
- B Extremely slow growth in nominal GDP per capita will drop average income in Peru to fourteenth place in Latin America by 2020.

▶ **URUGUAY**

- B Recent political and economic restructuring in Uruguay have brightened its economic outlook, for a forecast average of 4.5% in GDP growth over the next 23 years.
- B Nominal GDP growth per capita ranks fifth among Latin American entities, growing at a pace of 6.9%.

▶ **VENEZUELA**

- B As Venezuela lags most other South American countries in economic liberalization, only moderate GDP growth, 4.2%, is forecast for the next 23 years.
- B Oil continues to dominate government revenues and exports.

▶ **OTHER CARIBBEAN ECONOMIES**

- B Economic growth will continue at an annual average pace of 2.5% over 1997-2020.

▶ **OTHER CENTRAL AMERICA ECONOMIES**

- B Combined, Central American countries have among the lowest GDP per capita levels in Latin America.
- B GDP growth is forecast at a slow pace of 1.7% over the forecast period.