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The New American Hub

Manufacturing comes home.

p. 14

ALSO:

How Automation and Technology Can Grow Green Warehouses

p. 24

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Inside

VOLUME 22 NUMBER 11 November 2009

14

FEATURES

20

28

32

EXECUTIVE BRIEFING

COLUMNS

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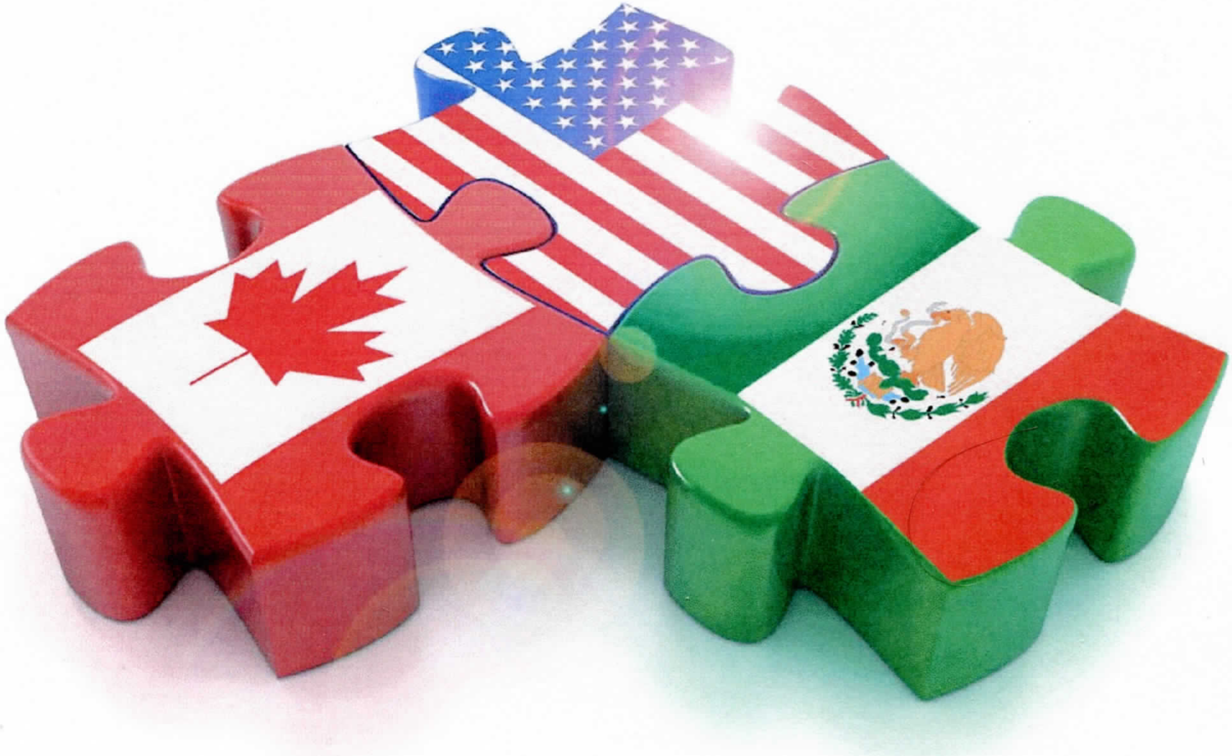

The New American Hub

Manufacturing comes home. BY DAN MCCUE

Several years ago, or so the story goes, a grieving fan visited the Lubbock, Texas grave of an ill-fated musician and left behind a letter to mark the occasion.

"Buddy Holly," the note said, "still lives and rocks in Tijuana, Mexico."

Much the same can be said of near-sourcing. Despite a constriction on financing for new facilities or expansions brought on by the global financial crisis, the idea of bringing key supply chain elements back to the Americas has firmly established itself as a long term strategy for companies hoping to bolster their competitive advantage.

Many are also looking to capitalize on the opening provided by the North American Free Trade Agreement (NAFTA); the Central America Free Trade Agreement, now known as CAFTA-DR with the 2004 inclusion of the Dominican Republic; the U.S.-Caribbean trade pact; and bilateral trade agreements with Peru and Chile.

And U.S. logistics companies, commercial real estate firms, and contract manufacturing outfits are all proving to be the beneficiaries of this activity.

"We've definitely seen an uptick in an interesting in near-sourcing, starting in the first half of 2008," said Mark Michaels, senior vice president of sales and marketing in North America for Kuehne+Nagel Inc., the global supply chain solution and logistics company.

Michaels said manufacturers and others with international supply chains haven't so much shut down their Asian operations, but are rather looking at

Mexico, as well as locations in Central and South America, as possible locations for new operations.

"The price of bunker fuel was a big driver of that, but at the same time, I think the surge in interest was stoked by the state of labor relations at U.S. ports at the time," Michaels said.

"If you remember, the West Coast labor agreement was up in 2008, and a lot of people were worried about there being another work stoppage at the ports," he said. "That got people thinking not only about near-sourcing specifically, but also about ways to simply shorten their supply chains."

One effect has been to give a boost to the direct-ship supply chain model, in which goods are assembled in Mexico and then trucked directly to customers rather than being shipped from a more distant point of origin, trucked, or taken by rail to an intermodal facility or distribution center and then delivered to their final destination.

Central America is an excellent sourcing option for U.S. apparel companies due to its proximity to the U.S. market and its duty-free advantages under CAFTA-DR.

In response, Kuehne+Nagel has expanded its operations along the U.S.-Mexico border, acquiring customs broker Romero and McNally in Otay Mesa, Calif. to increase its border clearance capabilities.

Since then, the company has continued to invest heavily in IT solutions, with the intent of offering "control tower style management of transportation across the border," said Kuehne+Nagel's Jack Kime, its senior vice president for overland services in North America.

"As near-sourcing has grown in Mexico, so too have the services that support it," Kime said. "Our control tower effort is a direct result of global satellite positioning technology spreading in Mexico—something that wasn't available until recently—and that's allowing us to increase supply chain visibility through Web-enabled technologies."

"What we're doing, in effect, is bringing the visibility of our sea and air operations to our land service," Michaels said.

Near-sourcing an appealing alternative

Daniel Griswold, director of the Center for Trade Policy Studies at the Cato Institute in Washington, D.C., said while it's difficult to sort out exactly where trade-related trends stand coming out of the steep global downturn, near-sourcing has never really been out of fashion.

"Despite all the attention accorded China and what's occurred there in terms of globalization and economic growth, near-sourcing has always made sense for certain types of goods and material," he said. "For instance, for heavy items and durable goods, which might have high transportation costs attached to them, as well as for goods like textiles and apparel, where there's more reliance on and need for more tightly integrated supply chains and shorter delivery times."

The advantages of near-sourcing are easy to understand. For starters, by positioning inventory closer to the point of sale, businesses save on transportation costs and can eliminate use of premium modes of transportation to fulfill their just-in-time goals. Having their suppliers closer at hand also helps retailers and manufacturers, businesses that typically keep inventories in warehouses to hedge against ocean storms, and the aforementioned port labor issues and congestion, to reduce their storage costs.

For some industries—tech companies in particular—near-sourcing is also a hedge against the rapidly changing tastes and whims of the public, helping them prevent their being stuck with a warehouse full of a product that's suddenly "so last year."

In addition to reducing delivery lead times, having suppliers or facilities close at hand also enhances customer service, and dramatically reduces fuel consumption.

Fuel costs: a once and future worry

That latter benefit is no small concern in a global economy where, if anything, fuel costs have proven more volatile in recent years than at any other time since the advent of widespread containerization of cargo in the mid-1960s.

An analysis released earlier this year by Cushman & Wakefield, the commercial real estate firm, in cooperation with the National Association of Industrial and Office Properties, found that between 1985 and 2005, the average price of a barrel of oil was $24.11; in the past three years, the average has more than tripled, to $81.45. And who can forget that between January 2007 and July 2008 alone the price of oil surged from $50 per barrel to $147 per barrel?

3PLs Lend a Hand in Near-sourcing Decisions

Gary Allen, vice president of innovation and product development at Exel, the Ohio-based division of Deutsche Post DHL, believes that not only will the interest in near-sourcing continue to grow in coming years, but its challenges will become more complex as decisions that used to take years get boiled down to weeks or even days.

"I think there are two factors at work here: Competition is getting stiffer—so your timeline of plant-siting decisions is far more condensed—and we continually have access to more and more information," he said.

As a result, Exel, which has more than 40,000 associates located at more than 500 sites through the U.S., Canada and Latin America—a network that generates roughly $4.8 billion in annual revenue—has positioned itself as, in Allen's words, an "enabler" in the decision-making process.

"What we've seen in fulfilling that role is a shift in what people want to look at when they're making a decision about how and whether to near-source," Allen said. "It's a shift predicated more on picking locations than on relying on a more detailed labor cost analysis.

"Don't get me wrong, if people are looking at a change in network design, a full-blown, detailed analysis can take months, but when your primary concern is the location of a facility, that might only take weeks, and if you're looking at a sourcing decision, with the system we have in place and studies we've done, we can quickly look at a broad spectrum of factors, including logistics, warehousing, transportation, taxes and customs fee impacts, and come up with an analysis in a couple of hours."

In a recent white paper, Exel concluded that claiming a competitive advantage across a changing supply chain comes down to formulating a strategy to:

- Lower inventory costs
- Reduce lead times
- Provide better service for customers
- Achieve faster recovery times after supply chain disruptions
- Reduce their company's carbon footprint to conform to consumers' demands

Among the factors that need to be considered, the paper said, were total supply chain costs, the characteristic of the given product, shipping strategies, market dynamics, and how one will manage hidden or unexpected costs.

Other factors include customs issues, container consolidation, warehousing, and transportation.

In fact, in Exel's analysis, the failure to properly manage the complexities of the internal global supply chain will add tremendous, competition-dampening costs to the goods being made.

"Third-party logistics providers are increasingly helping to navigate that path," Allen said.

Supply chain costs include:

- The cost of labor
- The cost of raw materials
- Property-related costs
- Facility costs
- The cost and depreciation of equipment
- Direct and indirect logistics costs, including transportation, warehousing and customs fees, as well as the maze of legal, cultural and logistical details that come along with globalization

Not only did this rapidly accelerate supply chain costs, it also added a considerable amount of time to deliveries as ocean-going ships slowed to save on fuel. At the height of "peak oil" ships traveling from China to the ports on the U.S. East Coast took 23 days to make the journey rather than the traditional 18 days. And even those who relied on fast-track ships saw their delivery times increase from 14 to 18 days by some estimates.

When oil was $40 per barrel or lower, the cost of shipping from distant locations in Asia was more than offset by huge manufacturing cost advantages, Cushman & Wakefield's study said.

Higher oil prices and dramatic price fluctuations have made transportation planning and spending management particularly challenging, and prices are expected to rise again as the global recession eases and demand increases.

Furthermore, a May 2008 study by the Canadian Imperial Bank of Commerce estimated that in 2000, the cost of shipping a standard 40-foot container from China to a port on the U.S. East Coast was about $3,000. When oil prices edged above $147, the cost jumped nearly three-fold to $8,000. The study predicted that if oil prices reach $200 a barrel—something no longer entirely out of the realm of possibility—it would cost $15,000 to ship that same container.

At the same time, a white paper released by Exel, the Westerville, Ohio-based logistics service provider and division of Deutsche Post DHL, put hard numbers to the assertion that low-cost labor is quickly becoming a thing of the past in formerly inexpensive industrial hubs. For instance, Exel found that since 2003, wages in China have risen 19 percent compared to a rise in wages of just 5 percent in Mexico and 3 percent in the U.S.

Photo courtesy of Exel

"Products ideally suited for near-sourcing are those that have the following characteristics," Allen said. "Those that have a complex design that requires close collaboration between the manufacturer and its suppliers or affiliated plants; products that are large, bulky and delicate—think of large, flat screen TVs—meaning they'll require extensive packing, which in turn makes them less than ideal to ship in a standard container; those that require a shorter lead time to market; and those that might be more susceptible to pirating—in an intellectual property sense—than others."

After considering these product characteristics, the next decisive factors when considering near-sourcing options are energy costs—i.e. fuel costs—followed by labor costs and training considerations.

Why is labor becoming, in relative terms, a less important consideration? Allen said there's more to the answer than cost.

"Companies are getting more intelligent about what they do in the design process of their product or facility to eliminate labor and simply shipping," he explained. "Now that's not to say labor or logistics costs are irrelevant, obviously that's not the case at all—there are huge differences when you compare off-shore sourcing to near-sourcing—but I do think companies have come around to understanding that the first piece of the puzzle is understanding your costs and the importance of there being transparency when it comes to those cost components."

Allen said in his experience, 3PLs and other expertise providers are being pulled into the decision-making process about near-sourcing earlier than ever before.

What companies are looking for are partners who can leverage their existing knowledge of the infrastructure, people and facilities in the region they're considering. Again, it comes down to speeding up the process, but still doing everything you can to make sure a decision made is the right one.

"The key is understanding the service level needs of your customer," Allen said. "Increasingly, those needs are revolving around intelligence and analytics."

Not surprisingly, these sobering perspectives have increased the attractiveness of locating manufacturing operations closer to home.

NAFTA's positive effect

Helping to smooth the evolution toward greater near-shoring is the North American Free Trade Agreement (NAFTA). While onetime U.S. presidential hopeful Ross Perot once colorfully referred to the "giant sucking sound" representing U.S. jobs heading south to Mexico should NAFTA go into effect, the Texas billionaire has proven far from prescient.

Since NAFTA went into effect in 1994, the trilateral trade of goods has tripled, reaching $957.8 billion in 2007, according to the Cushman & Wakefield paper.

Further, the agreement has proven to be a key driver of economic growth: For every dollar worth of U.S. goods sold to China, Canada buys nearly four dollars worth of work, and Mexico more than two.

Cushman & Wakefield also found that this increase in trilateral trade has resulted in a "logistics boom on border locations of all three countries," owing to co-production of many goods and the relatively easy flow of goods across borders, which simplifies the management of many risks and variables.

As a result, from 1994 to 2007, U.S. trade in the region increased at a faster pace than that with Asia, accounting for about 37 percent of total U.S. imports and exports, compared with 32.3 percent with Asia in 2007.

For his part, Daniel Griswold believes NAFTA has a "positive, but not a dramatic effect" on near-sourcing, largely because the economic integration of North America had been going on for decades before the act became law.

"Think of the integrated American/Canadian automobile sector," he said.

Instead of a thunderbolt in the scheme of world trade, NAFTA was the culmination of these integration efforts, Griswold said.

"The bottom line is Ross Perot was wrong," he said. "There was no giant sucking sound, nor was there a stampede of companies shuttering plants and heading south of the U.S.-Mexico border.

"What we've seen instead is a fairly steady $2 billion a year investment in manufacturing in Mexico, compared to the $150 billion to $200 billion that continues to be invested here at home," he said.

Griswold said CAFTA, an agreement encompassing the U.S., Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua extended the reach of the near-sourcing movement (the Dominican Republic became a member in 2004), as have a series of other trade agreements.

"And in each case we've seen an uptick in the economic integration and the private investment that's occurred in these countries," he said.

Perhaps even more importantly, trade agreements with the U.S. act as a kind of "Good Housekeeping Seal of Approval," encouraging potential international suppliers of U.S. companies to invest in America's free trade partners, Griswold said.

"These agreements send a clear signal that the U.S. believes these countries are good and able trade partners that have stable governments and infrastructure that works, and access to global markets and a good customer base in their own right," he said.

What's more, proximity, long-standing regional business and economic ties and these more open trade relations have led to a growing sophistication of near-shore labor markets.

In its own analysis, McKinsey & Company, the management consulting firm, not only lauded Mexico as a prime location for near-sourcing because of its labor costs and availability, but also because its educational system is creating a large talent pool of engineers, managers, and finance and accounting specialists.

Labor cost parity

Michael White, senior partner for the El Paso, Texas-based industrial real estate firm TeamNAFTA.com,

Will 'Buy American' Diminish NAFTA Gains?

Photos courtesy of U.S. Customs and Border Protection

Many shippers are concerned about the 'thickening' of security along the U.S.-Canadian border, which can lead to a slowdown in customs processing of cross-border shipments.

Could 'Buy American' provisions written into the American Recovery and Reinvestment Act of 2009 negate the benefits of NAFTA and other barrier-lowering trade agreements?

That's a question attorney Buzz Burwell, a partner with Nelson Mullins Riley & Scarborough's Atlanta office and a team leader within its international practice group, says he's fielding with increasing frequency as the global economy begins to revive.

"It's definitely on the minds of the heads of a lot of companies in Canada, and to a lesser extent in Mexico, and primarily how it's related to government procurement and their ability to participate in municipal contracts," Burwell said.

"What we're finding is that at a time when a lot of federal money is being pumped into local economies, there's a lot of confusion about when and how those Buy American provisions will apply," he said.

On the one hand, he explained, there are Canadian companies who believe their ability to bid on local, state and federal contracts in the U.S. has been constrained, and on the other hand there are Canadian manufacturers who are unsure about how the provisions apply to them as exporters and suppliers to U.S. firms.

"Making it all the more confusing is that these provisions add another layer of compliance in the area of municipal procurement," Burwell said. "Not only do you, as a municipality, have to comply with the Buy American directive, but you have to do so while also meeting your obligations under NAFTA and various other free trade agreements, as well as the Government Procurement Agreement under the WTO."

The Government Procurement Agreement is the only legally binding agreement in the World Trade Organization focusing on government procurement; it is intended to foster world trade by establishing greater openness and transparency in the municipal purchasing process.

"If you read the Canadian press or talk to Canadian officials, you quickly get the sense that they are very concerned about a retriggering of trade friction that seemed to have improved over the years," Burwell said.

That's not a small consideration when one considers that the U.S. and Canada now have the largest and most comprehensive trade relationship in the world. In 2006, according to U.S. Commerce Department figures, total imports between the two countries topped $303 billion, while exports between the two topped $230 billion.

And then, of course, there's the question of the tightening of the U.S. Canadian border following the 9/11 terrorist attacks, with passports and visas now being required to pass back and forth between the two countries.

"What's happened is both governments have refocused on the examination of persons at the border, and that's made it much more difficult, on a commercial level, to get people across the border," Burwell said. "The problem is in some cases we're seeing the enforcement of arcane rules, the implementation of rules that are difficult to understand or easy to misapply, and a lack of uniformity in how border agents are trained.

"It's very difficult for a business to function when that occurs," he said. "For instance, I know of a number of Canadian companies that do business in the U.S. that have been required to secure visas for their employees. At the same time, I also know of instances where employees of U.S. companies bidding on contracts in Canada have been denied permission to travel there because they had a DUI on their record.

"Now, they eventually got to go, but it took several months and a lot of paperwork on the part of their employer to make that happen," Burwell said.

Another issue many U.S. manufacturers are thinking about is whether they can near-source some aspect of their production or supply process and still be able to place a "Made in America" tag on their product.

"That again is a function of several overlapping rules, including NAFTA and the specific provisions of whatever bilateral investment treaties are in place in the countries involved," Burwell said. "And on a very basic level, it comes down to local content rules.

"For instance, if your raw materials are sourced in the U.S., exported and fabricated in Brazil and then brought back, they may very well still be considered 'Made in America,'" he said. "The issue you have to look at is the degree of substantial transformation that has occurred, changing the objects you're moving around from one place to another.

"Of course, it all depends on the wording of the specific trade agreement in place, but generally speaking, if these objects are being substantially transformed in another country, they will be consider to be of local origin," Burwell continued. "If the foreign operation transforms it enough, works on it enough, or devotes enough man hours to the operation, the product will be considered to be 'made' in whatever country the work was done on it."

said NAFTA legitimized investment in Mexico by U.S. companies, particularly its provisions making trade and business related contracts between Mexican and U.S. entities enforceable in U.S. courts, and those protecting intellectual property rights.

What was missing until recently was supply chain cost parity between Mexico and its Asian counterparts, he said.

"What's interesting is that while people tend to focus on large U.S. firms that have a manufacturing presence in Mexico—I'm thinking specifically of some of the big computer manufacturers—I think the people for whom near-sourcing is particularly attractive are small- to mid-sized companies," he said.

"That's who people like us and people in the logistics industry are hearing from now, and let's face it, for a company of that scale, operating in China is a hassle," White continued. "It's half way around the world and in this economic climate, these companies are hard-pressed to dedicate resources to that kind of operation. It's far easier to fly from, say, Chicago to Mexico, if you need to, and to conduct business in the same time zone."

It's easier to fly from **Chicago to Mexico** (rather than China) if you need to, and conduct business in the same time zone.

Near-sourcing to Mexico also has an advantage, especially for companies whose products are technically sophisticated and who therefore might need to have U.S. managers and instructors spend a considerable amount of time at their near-source facilities, training the workforce.

First, nearly everyone in the region speaks English. Second, since most near-source factories hug the U.S.-Mexico border, American members of the team can still live and raise their families in the United States.

White said that while the economic downturn has forced some near-source suppliers to cut back to a three- or four-day work week, he was unaware of any plants that have been shuttered.

"There are two reasons for this," he said. "One, sour economy or not, Mexico is still the place where you want to make your large capital goods, your flat screen TV or refrigerator, because the packaging needs to be so significant it would be extremely expensive to ship from Asia.

"The second thing is that Mexico will always be a preferred location where you need a close collaboration between the home office and its satellite supplier," White said. "For instance, HP has a business server division down here where they build custom, company-specific servers. You don't want that kind of work half a world away."

Mexico: an early beneficiary of economic recovery

Alan Russell, co-founder and president of The Tecma Group LP, a "shelter" company with offices in El Paso and in Ciudad Juarez, Mexico, has been helping firms establish a presence and partnerships in Mexico since 1986.

But, he said in the last few years, his company has been "more active than at any point in our history."

"Part of that is due to NAFTA's helping to educate companies about Mexico's potential, and part is due to China's emerging middle class—for the first time I can remember, China is not the low cost labor option."

Tecma provides manufacturing facilities across the Mexican border, secures permits and licenses, installs the client's equipment, and then provides supply chain management services after the operation is up and running.

Although he did have to trim his operations due to the economic downturn—Russell cites June 19 of this year as his bottom in terms of hiring and orders coming in—he said that since that date he's been adding, on average, 14 employees a week to meet the needs of new clients.

"I think transportation is a huge part of it," Russell said. "You can still source from China, obviously, but here, the product we make today can be in Dallas tomorrow morning and in Chicago two days later.

"The other thing, and I'm very confident of this, is that when consumers start spending again, suppliers and factories in Mexico are going to be the first beneficiaries; after all, warehouses across the U.S. are empty. No one knew what was going to happen with the economy and no one wanted to carry any inventory.

"I, and many others, believe that very few people are going to want to wait six weeks to restock their shelves," he said.

"I think as a result of NAFTA, Mexico is going to be a big barometer of when and how well the big retailers come out of this recession," Michaels agreed. "As consumer demand rebounds, I think you're going to see Mexican manufacturing kick into overdrive to restock U.S. inventories and I think you'll also see a peak in trucks headed across the U.S. border."

Concerns growing in Canada

When it comes to discussing the impact of NAFTA on the near-sourcing trend, Mexico dominates the conversation simply because it is the low cost partner in the triumvirate.

But that shouldn't suggest that near-sourcing along the U.S.' northern border is moribund, said David Wilkins, who was U.S. Ambassador to Canada during the Bush administration.

"I don't think there's any doubt about what trade and business integration between the U.S. and Canada has meant to both countries," Wilkins said. "Since the inception of NAFTA, trade has tripled and, in esoteric terms, it has provided jobs and put food on the tables of millions of residents of both countries."

In the last year of his ambassadorship, Wilkins said Canadians expressed a great deal of concern about then

Port Development North and South of the U.S. Border

NAFTA may have effectively "branded " Canada and Mexico as ripe for near-sourcing opportunities, but it's been significant investments in ports and intermodal gateways—most notably Prince Rupert in Canada and Lazaro Cardenas in Mexico—that has truly given shippers and their customers more alternatives for moving goods and raw materials.

Both of these investments were driven primarily by land and infrastructure constraints that hampered the U.S. West Coast ports' ability to grow, according to *New Age of Trade: The Americas*, an analysis compiled by Cushman & Wakefield, the commercial real estate firm.

In 2007, the last year of appreciable port growth activity before the onset of the global economic crisis, container traffic at Mexico's busiest port, Manzanillo, surged 13 percent, while the newer and smaller Puerto Lazaro Cardenas saw its volume grow by a whopping 68 percent.

Photo courtesy of Prince Rupert

The factor responsible for driving most of that growth was on-dock rail facilities belonging to Kansas City Southern de Mexico S.A. de C.V., a subsidiary of the U.S.' Kansas City Southern railroad.

This service provides Lazaro Cardenas with a direct intermodal link to the southern U.S. The port is also blessed with a natural deep water harbor with a 59-foot draft, capable of handling the largest container ships transiting from Asia and providing them with a realistic alternative to the ports of Los Angeles-Long Beach.

On the downside, Lazaro Cardenas has less potential for distribution center growth due to its small local population, the report said.

Not to be deterred, Mexican officials and global shipping interests have turned their attention to Punta Colonet, located about 150 miles south of the U.S. Mexico border on Baja's Pacific Coast, as the site of a proposed 27,000-acre deep water port.

The $4 billion project would transform a rural farming community into a major cargo hub, likely supplanting Lazaro Cardenas as the surest Mexican route for Asian cargo to enter the American Midwest.

The Prince Rupert facility, meanwhile, located some 40 miles north of Vancouver, is the first North American port designed exclusively for intermodal rail shipments. Like their counterparts in Mexico, Prince Rupert's backers see it as a natural alternative to West Coast port congestion.

The $170 million Fairview Container Terminal and new trans-Pacific container corridor—which are served by the Canadian National railroad—is designed for intermodal traffic destined for points in central and eastern Canada, as well as Chicago and Memphis in the U.S.

As a result, the port has enjoyed double-digit growth in the past year, at a time when many of its competitors saw double-digit declines. This past July, Prince Rupert moved 24,822 TEUs, a 26.7 percent increase over last July. In August, 29,306 TEUs transited the port facility, an increase of 39 percent over a year earlier.

In September, Dr. Farid Novin, a senior economist with the Bank of Canada, cheered members of the Prince Rupert and District Chamber of Commerce by predicting a bright future for the port facility.

"You are now on the map," he said, according to the *Northern View*, a British Columbia newspaper. "This port has been very strategically studied, and people ask me about it when I travel."

Later, commenting on the port's efficiencies, Novin said, "This is one of the areas, I think, that is a no-brainer. This is an area that in 20 years will be a big strength for Canada."

Prince Rupert is also the deepest natural port in North America with a berth depth of 61.5 feet. Cushman & Wakefield also noted that the surrounding area's small population helps expedite car, truck and rail transportation.

As in the case of Lazaro Cardenas, however, the commercial brokerage also noted that warehouse and distribution center development around Prince Rupert will likely be limited, and will primarily consist of storage and consolidation faculties for incoming and outgoing freight.

Senator Barack Obama's assertion that NAFTA should be reconsidered and revised—a position he's since backed away from. Now they worry about protectionism—specifically, the 'Buy American' measures written into the American Recovery and Reinvestment Act of 2009.

"One of the major concerns is how that provision might impact Canadian suppliers of American operations who bid on municipal contracts," said Wilkins, who heads the foreign trade practice of Nelson Mullins Riley & Scarborough LLP, the Columbia, S.C. law firm.

"The way the provision is written, Canadian companies would be prohibited from bidding on those contracts, and suppliers to American companies might also be prohibited from participation," he said. "The thing is, right now there's a lot of speculation and not a lot of clarity.

"Personally, and I admit this falls into the realm of speculation as well, I think the White House will ultimately create an exemption for that," Wilkins said.

Another issue that has arisen in recent years is what Canadians see as the U.S. "thickening its borders in the wake of the 9/11 terrorist attacks. Among the measures adopted on the recommendation of the bipartisan 9/11 Commission appointed by President George W. Bush, was the requirement that anyone traveling across the border present their passport to the authorities manning the crossing.

"There's a perception that this made it harder to travel and harder to trade, but I think some of these assumptions will evaporate once the economy revives," he said. "I think what many are pointing to as a security issue was really just a manifestation of the entire world's economy slowing down, and, in terms of tourism, on Canada's having experienced an unusually wet and cool summer.

"Personally, I believe the passport requirement will facilitate trade and travel," Wilkins said. "Some measures have already been put in place, such as making passport cards and enhanced driver's licenses, including passport information to people living in border states, to speed the process at the border, and I think it's only going to get easier and smoother as we go along.

Embrace of near-sourcing will continue

Of course, near-sourcing is far from simply a North American phenomenon. "This is a trend that's really occurring the world over," Michaels said. "Whether it's in Eastern Europe or inexpensive parts of Southeast Asia, we're seeing companies consistently moving their manufacturing and sourcing close to their markets.

"At the same time, many of these areas are also fast growing consumer markets in their own right," he said. "For instance, where we once saw Eastern Europe as a manufacturing base serving Western Europe, now companies are asking how they can serve both eastern and western Europe from operations located in Russia."

The Cato Institute's Griswold believes near-sourcing will continue to play a very positive role in the trade future of NAFTA's signatories.

"Obviously, rising energy and transportation costs make the U.S., Canada and Mexico all the more attractive to each other, and while there's some fluctuation in those costs—as we speak, air freight and container shipping fees are trending downward—the one thing we do know for certain is that trade patterns continue to shift and prices will rise as the cost of fuel rebounds," he said.

"In light of that, I think I'ts safe to say NAFTA and CAFTA will continue to play an important part in America's participation in global supply chains," Griswold said. WT

Contributing writer Dan McCue lives in Charleston, S.C. where he writes frequently on international trade, foreign direct investment, and port-related issues.

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