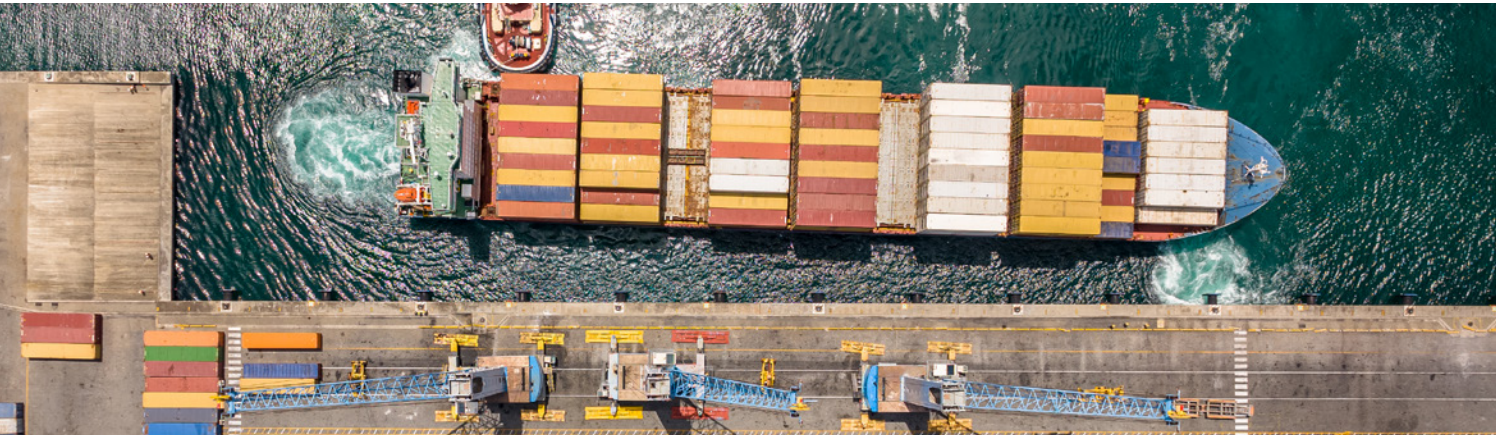
Shifting supply chains



DP World

Navigating a new inter-Americas trade landscape

Exploring opportunities and challenges
in regional trade adaptation

Partner content produced by
Journal of Commerce by S&P Global

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Introduction

As global trade dynamics continue to evolve, the inter-Americas supply chain landscape is emerging as a critical focus for companies strengthening resilience and diversification across their operations. In response to a decade marked by significant disruptions — from the pandemic to rising geopolitical tensions — businesses are increasingly looking for regional solutions that promise greater reliability and reduced risk.

Latin America has not historically served as a major industrial player, despite its close geographical ties to the United States, which emerged as the world's largest economy in 1890. Globalization began transforming manufacturing in the 1970s, and China and Southeast Asia rose to prominence as the primary sourcing hubs for US corporations. For decades, efforts to establish similar manufacturing bases in Latin America, particularly south of Mexico, were largely unsuccessful. But times are changing.

This report, developed in collaboration with Journal of Commerce by S&P Global, examines key elements driving the strategic recalibration towards strengthening inter-Americas supply chains, reflecting insights from a survey of industry leaders.

In early July, Journal of Commerce surveyed a select group of supply chain and logistics decision-makers on the factors influencing the development of their inter-Americas supply chain strategies. The survey tapped the perspectives of approximately 100 executives and managers from a diverse range of sectors, including shipping, freight forwarding and logistics service providers.

The responses illuminate the changing priorities and emerging trends within supply chain management, particularly the shift from extended global networks to more concentrated, regional models. By focusing efforts on the Americas, businesses are working to mitigate the vulnerabilities of long-distance supply chains as well as capitalize on the proximity and potential of Latin American markets to streamline operations, enhance efficiency and shift the imbalance of goods moving into the US by expanding nascent markets to the south.

Expanding strategic attention

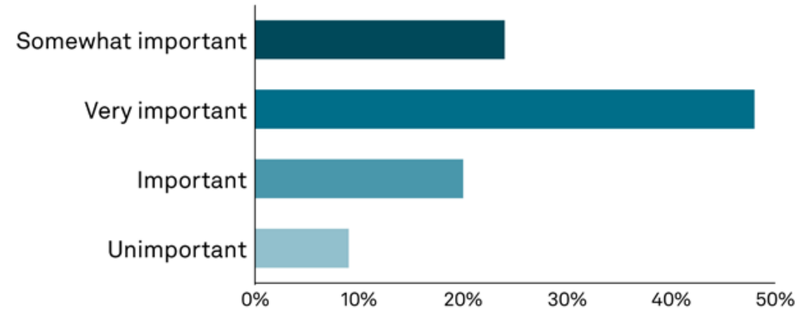
Among survey respondents, an overwhelming 92% consider creation of dedicated inter-Americas supply chains to be important to their organization's strategic planning. Of that group, approximately half selected the highest category of "very important" (Chart 1).

Provided they functioned correctly and allowed access to needed markets, the specific geographies of their supply chains were of little importance to US importers before 2020, said Otto Bottger, a senior vice president at DP World's commercial operations in the Americas.

However, "after witnessing the near-collapse of supply chains in the face of adversity, what became evident is that the dependency on a single, major route — usually in Asia, especially China — doesn't work," Bottger said.

Chart 1

Is the creation of dedicated inter-Americas supply chains currently important to your organization's strategic planning?



Source: Journal of Commerce by S&P Global

> "Just-in-time is great until your factory has to stop because the container with your supplies didn't arrive."

"You need to have redundancies. You need to have alternatives. So, China-plus-one and nearshoring took off. This has forced companies to consider where to develop new, alternative supply chains. Inter-Americas is the first logical choice (for US businesses) because of the geographical proximity."

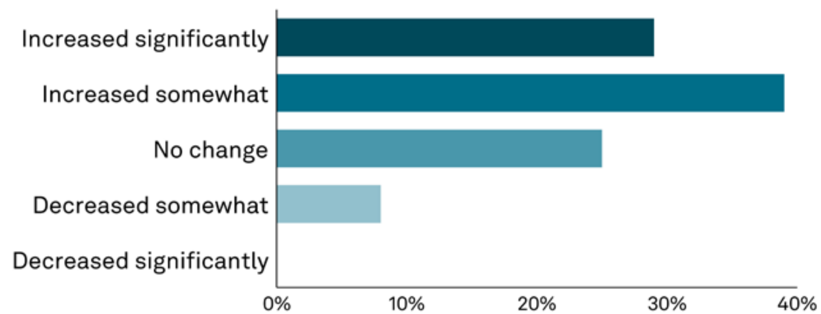
This observation aligns with survey feedback, as well; nearly one-third (29%) noted a significant increase in the importance of creating dedicated inter-Americas supply chains over the past three years, while an additional 39% called it "somewhat" of an increase (Chart 2).

"Just-in-time (JIT) is great until your factory has to stop because the container with your supplies didn't arrive," Bottger said.

"Or maybe your factory didn't stop, but you lost the contract with your customer because you couldn't supply the materials they needed. The hotel couldn't open on

Chart 2

Within your organization, how has the importance of creating dedicated inter-Americas supply chains changed over the past 3 years?



Source: Journal of Commerce by S&P Global

time because the carpets never arrived or arrived late. JIT is a great concept, and it was a solid practice for 20 to 30 years, but then COVID showed us that everything could be disrupted."

These considerations have accelerated a nearshoring boom in Mexico, which initially focused on Monterey and other areas in the country's northern region. Today, momentum is expanding to the southern and western regions, which are attracting significant infrastructure investment to build ports, railroads and industrial parks.

"Mexico was very smart and aggressive. It has been capturing this growth ahead of other countries, but now we're seeing activity in other countries: Colombia is shaping up, and there are industrial zone projects in Costa Rica and the Dominican Republic," Bottger said.

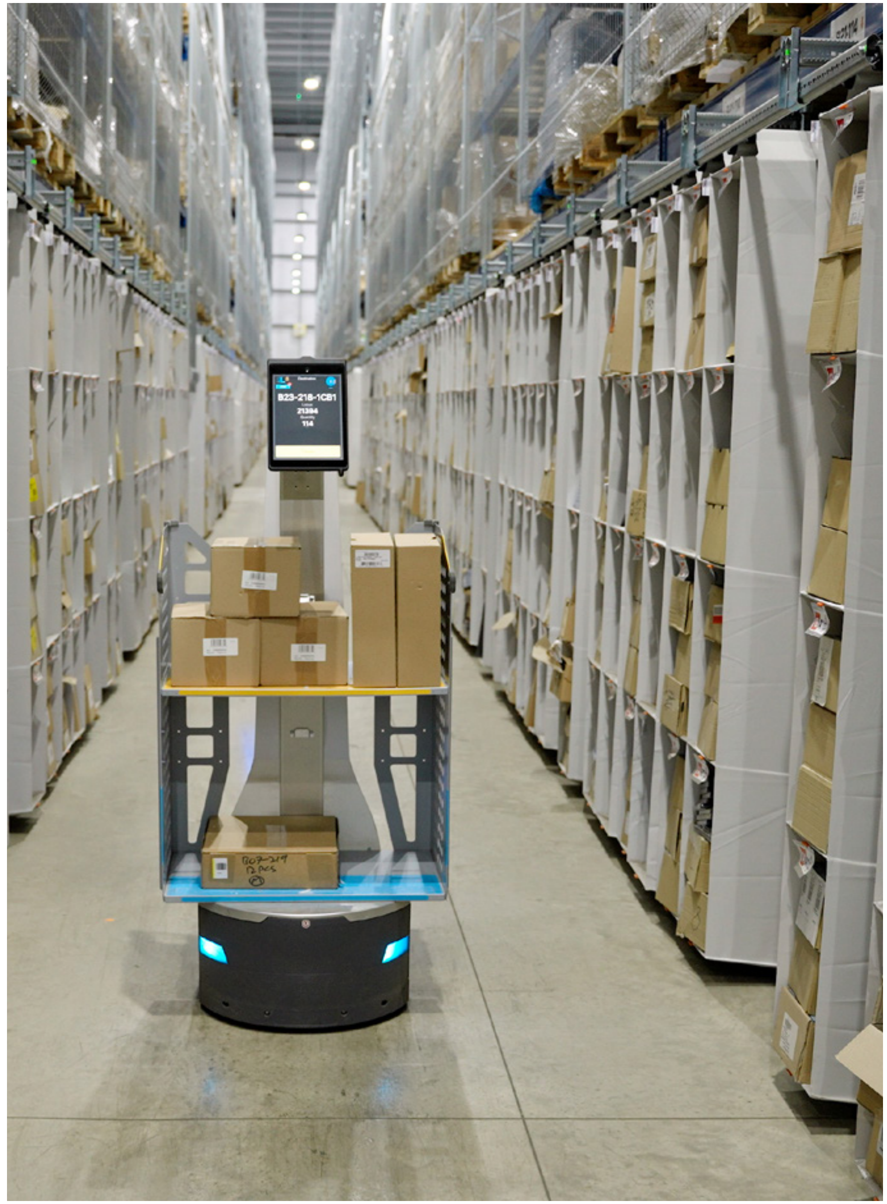
Today, momentum is expanding to the southern and western regions, which are attracting significant investment.

He predicts nearshoring will spread south through Latin America, and he highlighted Brazil's enormous potential to increase its role as a supplier to US corporations and industries.

"As the third-largest economy in the Americas, Brazil is well positioned and already a supplier to other South American countries because of its large industrial base and significant population," he said.

These predictions reflect the growing trend of US manufacturers making a renewed effort to bring production closer to home, following a wave of extraordinary supply chain disruptions that began with the pandemic in 2020.

The Russia-Ukraine conflict has wreaked further havoc, as have Yemeni force missile attacks, which are disrupting Red Sea shipping and causing significant reroutes, container shortages and cost increases across the industry.



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A severe drought that limited access to the Panama Canal exacerbated these issues. In mid-2023, Gatün Lake, the water source for the canal's locks, fell to its lowest level since at least 1965, resulting in the reduction of draft levels and ship volumes. The subsequent queue forced numerous vessels to reroute, extending transit times by more than a week. While 2024 has brought the water up to near-historic levels, the experience highlights the growing importance of factoring climate change impacts into expectations for canal reliability when consideringlong-term supply chain planning.

Accordingly, shipping rates have surged amid uncertainty over whether these disruptions will prove temporary or mark the start of a new normal that could last decades.

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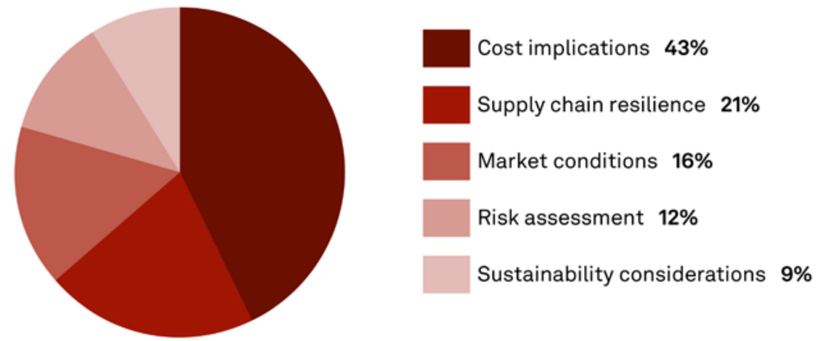
Sustainability, however, had an interesting showing in the survey. Although this is a hot topic, as multinationals across myriad sectors spend time and resources to reduce their carbon footprint, the impact on strategic planning appears somewhat different, at least among survey participants. Nearly half of respondents (44%) rank sustainability considerations the least important factor influencing their decision to diversify, consolidate or maintain their supply chains' current form (Chart 3).

Yet, as efforts to tackle climate change accelerate, there is a growing likelihood that policymakers will impose mandatory carbon-based taxes or fees on goods transport. Drilling down into the topic, and looking forward, 17% surveyed did identify sustainability as the top strategy they are prioritizing to future proof their business. Although increasing supply chain sustainability may be an immediate priority for only a small group, any progress made in that respect could provide significant cost savings in the long term.

Chart 3

What is the most important factor in deciding whether to diversify, consolidate or maintain your supply chain in its current form?



Source: Journal of Commerce by S&P Global

Market potential

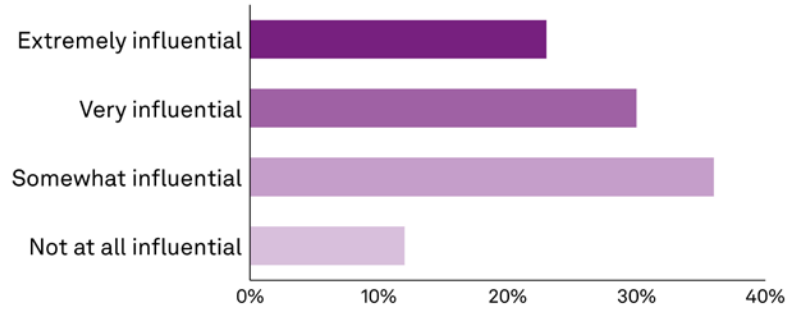
Locating manufacturing facilities near South America's east or west coasts – from which goods could ship to North America without concern for the problems above – is becoming an increasingly attractive prospect for US-headquartered companies.

For one quarter of survey participants, the market potential of South America is an extremely influential factor that is shaping future planning, but it is important for the vast majority, with all but 12% noting market potential as a factor of some influence (Chart 4).

When asked how bullish they are about their companies' prospects in South America over the next five years, 70% of participants said they were optimistic or very optimistic (Chart 5).

Chart 4

How much influence does South America's market potential have on your organization's future planning?



Source: Journal of Commerce by S&P Global

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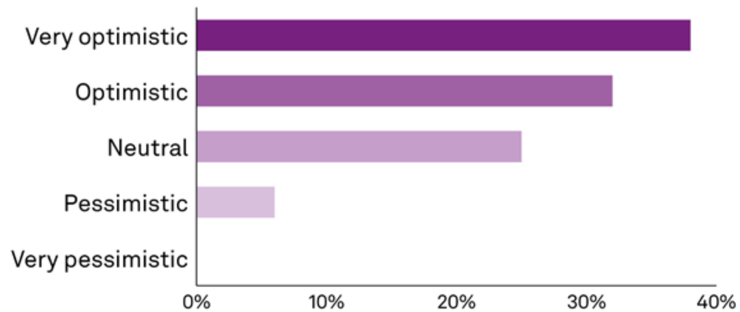
Chart 5

Looking ahead 5 years, how optimistic are you about the future of your company's activities in the Americas/South America?



Source: Journal of Commerce by S&P Global

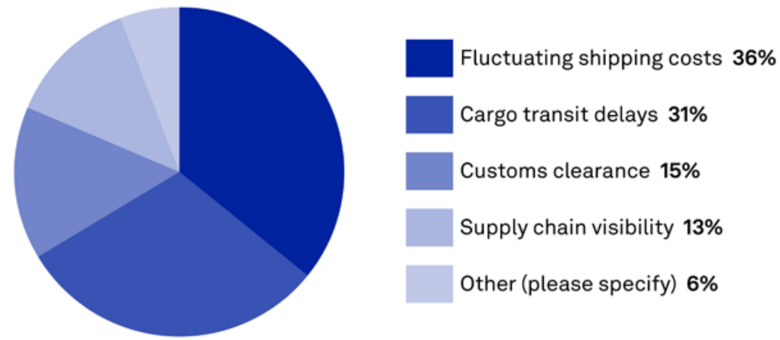
These views are reflective of an economic revival across much of Latin America that is creating and expanding trade opportunities. In 2023, Guyana's real GDP expanded 33.9%. Panama (+7.3%) and Costa Rica (+5.1%) were other standouts in terms of economic growth, while Belize, Paraguay, Nicaragua, Dominica and Barbados all achieved a real GDP increase of more than 4% last year, S&P Global data shows.

"It's very important to have an inter-Americas strategy and an inter-Americas supply chain," said Terry Donohoe, DP World's senior vice president for freight forwarding in the Americas. "There are geopolitical shifts that add to that. Some free trade agreements would add to the significance of the inter-regional capabilities.

"To be present in Latin America, you must be cognizant that it's not a trading bloc — it's not like the European Union. You must be in-country and understand the nuances of each market. Having a local presence will be key to expansion."

Chart 6

In inter-Americas trade, what is the most significant operational challenge your business is facing?



Source: Journal of Commerce by S&P Global

"To be present in Latin America, you must be cognizant that it's not a trading bloc — it's not like the European Union."

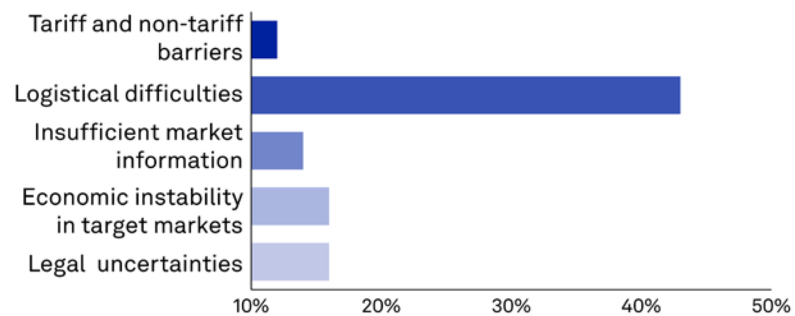
When it comes to the inter-Americas operational challenges facing respondents, fluctuating shipping costs (36%) and cargo transit delays (31%) lead in significance. For more than one quarter of respondents, customs clearance (15%) and cargo visibility (13%) are significant hurdles for trade in this lane (Chart 6).

Respondents also mentioned the limited number of suppliers, as well as capacity and communication constraints.

In a similar question, 43% identified "logistical difficulties" as the most important challenge to expanding trade or activities in South America. This was followed by equal numbers concerned about economic instability in target markets; policymaking and legal or regulatory uncertainties; insufficient market information; and tariff and non-tariff barriers (Chart 7).

Chart 7

What is the most important challenge to overcome in expanding your trade/activity in or with South America?



Source: Journal of Commerce by S&P Global

Factors in consolidation decisions

In their efforts to deploy new supply chain strategies more generally, the greatest challenge for 33% of respondents is cost, while 32% highlighted technological integration and smaller groups selecting regulatory compliance and employee training (Chart 8).

Unsurprisingly, these primary hurdles have remained roughly the same over the past three years, with the majority of survey respondents – 39% – pointing to cost as having the greatest impact, followed by technological integration, regulatory compliance and employee training (Chart 9).

The majority of survey respondents pointed to cost as having the greatest impact on deploying new supply chain strategies in the past three years.

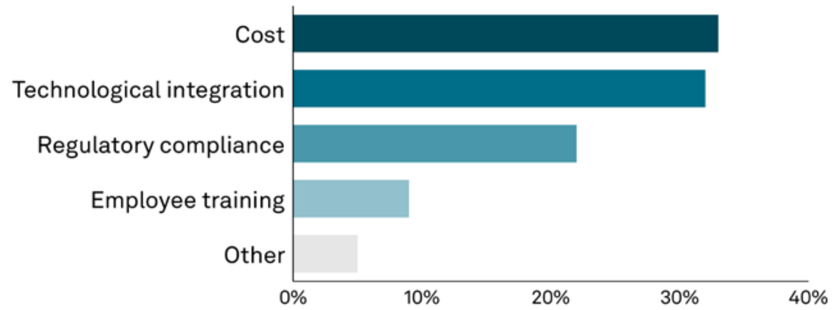
Changing a company's supply chain often requires working with new, unfamiliar vendors. As such, there is a comfort level in maintaining longstanding supplier relationships that impacts perception of overall cost. The supplier may not be perfect, but familiarity outweighs the potential risk. This inertia, or fear of failure, can be difficult for companies to overcome.

Other considerations include the real opportunity cost of switching vendors. Onboarding a new supplier takes time, so companies seeking to diversify their supply chains should quantify the likely benefits beforehand, not only in terms of cutting costs but also related to reducing risk. If an organization can shorten its supply chain and never have its cargo delayed because of capacity constraints or because a ship is redirected, it is akin to a kind of insurance, DP World executives explained.

When initially considering whether to change or maintain their supply chain's current form, respondents pointed to "cost efficiency" as the most significant factor, followed by supply chain resilience, then risk reduction and operational simplicity.

Chart 8

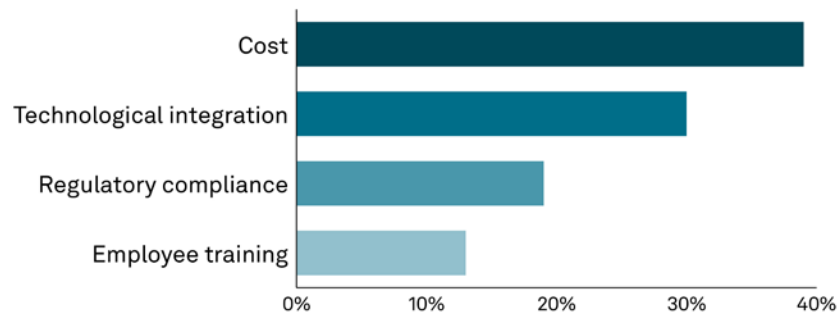
What is your organization's most significant challenge to deploying new supply chain strategies?



Source: Journal of Commerce by S&P Global

Chart 9

Over the last 3 years, which challenge has had the highest impact on deployment of new supply chain strategies?



Source: Journal of Commerce by S&P Global

Nearly half of respondents believe the primary benefit to having a more diversified supply chain is reducing the risk of disruption from various events such as natural disasters, political upheaval and industrial action. Greater flexibility – cited by 28% of participants – and a lowering of costs by encouraging competition among suppliers (24%) were other significant expected benefits (Chart 10).

“You try to strike a balance between performance, cost resilience and reducing exposure to some of the threats that relying on a single supplier would bring,” Donohoe explained.

“To get there, I see greater diversification in the immediate future, while companies with demand-based supply chains seek out greater resilience.”

Although the disruption of the last four years has highlighted the benefits of greater diversification, the appeal of supply chain consolidation remains strong for some businesses. Among respondents, 29% identify deeper, closer relationships as the primary benefit of this approach; 25% look to consolidation to simplify management, and 15% anticipate better pricing. However, a significant 29% noted a clear preference for multiple vendors when asked this question (Chart 11).

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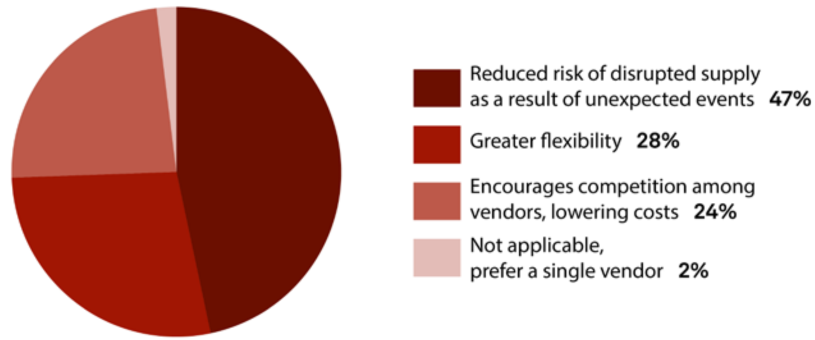
Chart 10

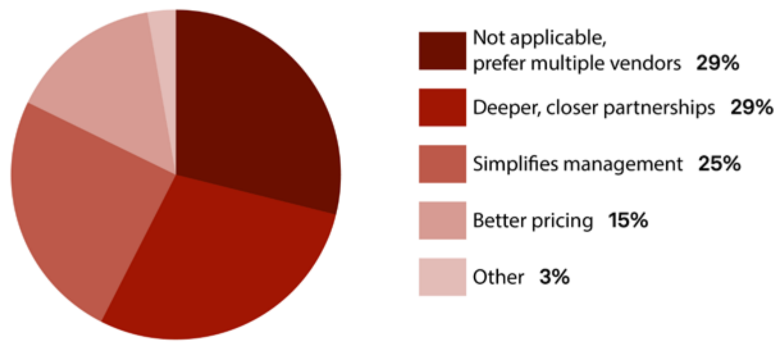
What is the primary benefit of having a more diversified supply chain?



Source: Journal of Commerce by S&P Global

Chart 11

What is the primary benefit of using a single vendor for your supply chain needs?



Source: Journal of Commerce by S&P Global

Some companies may opt to consolidate their supply chains where the distance that imported goods travel is relatively short, Bottger said.

"The downside is that it may not be the most economical or most competitive proposition," he continued.

Implementing strategies

When it comes to implementing strategies to future-proof their supply chains, 34% of survey respondents are prioritizing their supplier relationships, while 29% are focused on expanding their geographical reach. Investing in technology and becoming more sustainable, as noted above, were also highlighted (Chart 12).

However, diversification drawbacks include often requiring a shipper to nearly start from scratch, Bottger said.

"Some of the alternative sourcing locations may not be capable of fulfilling the level of volume capacity or quality that you require," he said. "You may need to be patient and work with your suppliers."

Bottger advised companies seeking to diversify by expanding into Latin America "to be very careful because in many cases these are new, uncharted territories — the risk is worth it, but your due diligence must tick all the boxes."

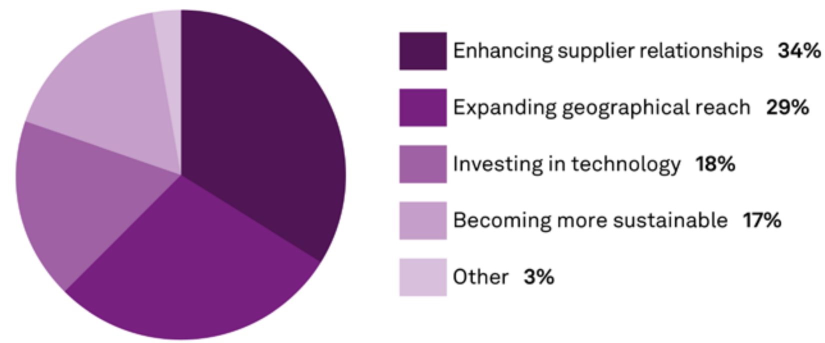
Conclusion

The survey findings emphasize the critical role of inter-Americas supply chain diversification within companies' strategic frameworks, prompted by recent geopolitical shifts and historical disruptions.

Today, companies are more aware than ever of the risks associated with overreliance on distant, single-source suppliers and are shifting towards closer, more reliable alternatives within the Americas. This shift is a response to past disruptions and a strategic maneuver to safeguard against future uncertainties.

Chart 12

Which strategy is your company prioritizing to better future-proof its supply chain?



Source: Journal of Commerce by S&P Global

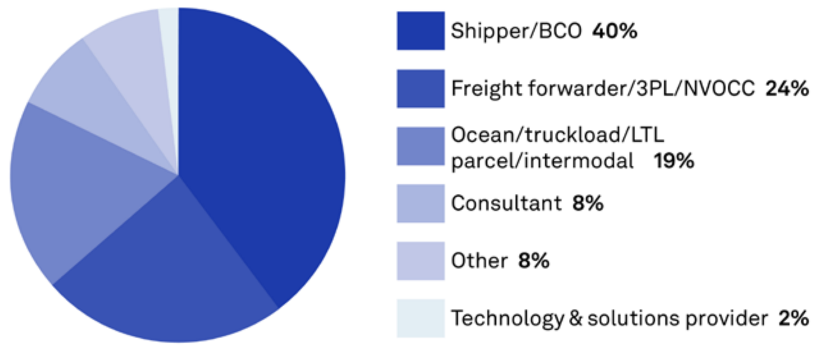
The trend is accompanied by an increased focus on nearshoring and building robust links across the region, suggesting a growing recognition of Latin America's potential to bolster supply chain resilience. Companies are expanding their local presences, leveraging geographic proximity while tapping into emerging economic opportunities. This is supported by investments in technology and stronger supplier relationships, which aim to fortify supply chains against the backdrop of an unpredictable global trade environment.

Looking forward, the path for inter-Americas trade is promising but also fraught with challenges that require adaptable strategies. As companies navigate this complex landscape, they must remain vigilant about the risks associated with new markets and the ongoing need for operational agility.

The insights outlined above are critical to shaping future initiatives, where a more localized and diversified approach could be key to gaining a competitive advantage in a rapidly changing global trade landscape.

Chart 13

Which category best describes your company's business?



Source: Journal of Commerce by S&P Global

Survey methodology

This study was based on an anonymous survey of 101 individuals regarding inter-Americas supply chain diversification. Among respondents, 40% were shippers or beneficial cargo owners and 24% were freight forwarders, 3PLs or non-vessel operating common carriers. Additional respondent categories can be found in Chart 13.

In terms of seniority, 65% identified as executive or senior management, 27% as management and 6% as non-managerial.

Responses were collected in June and July 2024. Analysis of the data was conducted solely by Journal of Commerce by S&P Global.

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Trade is the lifeblood of the global economy, creating opportunities and improving the quality of life for people around the world. DP World exists to make the world's trade flow better, changing what's possible for the customers and communities we serve globally.

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What's more, we're reshaping the future by investing in innovation. From intelligent delivery systems to automated warehouse stacking, we're at the cutting edge of disruptive technology, pushing the sector towards better ways to trade, minimising disruptions from the factory floor to the customer's door.

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