

## Logistics Experts See Manufacturing Shift

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CHICAGO — An increase in manufacturing activity in Mexico along with a pullback in outsourcing to China could lead to “fundamental change” in the flow of freight in North America, a logistics industry researcher said here.

“We will see more south-to-north movement and less west-to-east moves,” Theodore Stank, a professor of logistics at the University of

Tennessee, said in a presentation at the Council of Supply Chain Management Professionals’ annual conference on Sept. 21.

However, other logistics executives at the meeting said that although some firms have shifted production to Mexico, they do not expect the transfers to have a major effect on China’s status as a global manufacturing center.

Mexico plans to spend \$7 billion to expand 12 existing ports and open four new ports, Stank said. Much of that freight would travel

by rail across the border into the United States.

From Dallas, U.S. railroads could run special intermodal trains to Atlanta, Harrisburg, Pa., Chicago and other major freight hubs, dropping off shipments from Mexico and picking up goods for a return trip across the border into Mexico.

Despite “a lot of talk” among rail carriers about the potential for such a “closed loop” rail network, Stank said, more money is needed to pay for new rail lines and expanded terminal facilities.

“Railroad capital spending is nowhere near where it needs to be to do the kinds of things we’re talking about,” he said. “Some kind of public support may be necessary.”

Other logistics executives said they didn’t think China’s status in world manufacturing would diminish.

Alex Thompson, vice president of market strategy for TradeBeam Inc., a company that supplies software to help automate import and export processes, said he sees “no downward trend” in trade between the United States and China.

“It would be catastrophic for

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## Mexico, China to Compete for Shipments

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either side,” Thompson said. China needs to create jobs for hundreds of millions of people and the United States relies on China’s purchases of U.S. currency to fund the growing national debt.

China also has enough manufacturing expertise that it has what Thompson calls a “positive net-

work effect,” a condition in which competitive advantages could last for decades.

Still, Mexico shows evidence of benefiting from a shift in sourcing strategies.

In a survey conducted in mid-2009, nearly 60% of the shippers responding said the slumping economy had forced them to rethink their supply chains, as well as their relationships with third-

party logistics companies.

“Rising labor costs in previously low-cost countries and fuel and currency volatility were already challenging the notion of long, thin supply chains,” said the authors of the study on the state of logistics outsourcing.

Pete Montaña, vice president of sales for Con-way Truckload, said Mexico’s proximity to the United States is an advantage when

demand for freight shipping is down, because it is easier to ship goods in smaller quantities, if needed.

“If a customer is promised delivery within seven days, you can’t do it from China,” Montaña said.

Larry Monaghan, director of transportation and logistics for LG Electronics, a company that makes flat-screen televisions, refrigerators and other appliances in Mexico, said retailers are reducing the amount of inven-

tory they keep in stores, which means he has to have a way to restock quickly.

Jon Lagenfeld, a logistics industry analyst for R.W. Baird & Co., said much of the outsourcing to China initially was based solely on savings from labor and materials and didn’t take into account the effect on other supply chain costs, such as the cost of fuel.

“Companies started to rethink what it means to the supply chain,” he said.