NEWS

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SUBJECT: BREAKFAST BEYOND THE WATERFRONT: PORT OF LOS ANGELES EXECUTIVE DIRECTOR PRESENTS "AMERICA AWAKENS THE SLEEPING GIANT"

LOS ANGELES (CA) – The Port of Los Angeles and media partner Los Angeles Business Journal presented the sixth annual forum for the business community "Breakfast Beyond the Waterfront." The forum forecasted emerging trends in trade and commerce that will dominate the world economy. A full transcript of Larry Keller's presentation follows:

Since early 2001, we've been hearing reports of impending economic downturns from every corner of the world. The global economy was weakening well before September 11, but the economic balance was certainly disrupted by those tragic events.

At best, the current worldwide situation was characterized as uncertain as we all gauged the impacts of the American military response. However, in just the past few weeks, economic analysts have started to portray a more positive picture. I, like they, believe that our economy has begun an upward swing, and we should start to see nations around the world stabilizing and working their way out of the doldrums by mid-year.

That is not to imply that it is all "business as usual." Mandatory security precautions to protect people, property and goods have consumed our immediate attention and resources . . .and have made permanent changes in how we do business.

This is a "new day" with enhanced security standards for our maritime community as well as your various industries. We have experienced only slight delays caused by understandable security measures, but commerce has continued unabated. What is usual is that we have remained flexible.

So now I'd like to talk specifically about what's happening today at the Port. Our expectations for 2002 reflect the health of our regional economy and our undeniable forward motion.

Then, I'd like to go to two critical Asian trading partners – China and Japan – to discuss what we should expect to see from those two Asian giants and how they impact trade around the world.

The Port of Los Angeles has had a remarkable year, thanks to some very aggressive and creative work by our customers. In container handling figures released just a week or so ago for calendar year 2001, we showed a 6% increase.

While that is lower than the unprecedented numbers seen about a year ago, it represents steady, reliable growth that we expect to continue in 2002 at a rate of about 5 to 6 percent.

The Port of Los Angeles remains the #1 containerport in the United States. We are, in fact, the only port on the West Coast that has experienced consistent growth in the past year. The reason is simple: it's economy of scale for our customers. They are bringing the lion's share of their cargo here to LA on their biggest ships because of the size of our marketplace.

We're not complacent. This year will see two monumental achievements for our City and Port.

In April, the much-heralded 20-mile Alameda Corridor will open and deliver on its promise to bring rail reliability for Port cargo destined for transcontinental points of delivery. At the same time, the Corridor brings reductions in air emissions by removing traffic conflicts at more than 200 intersections. We are very proud to be a founding partner of this project.

At the southern end of the Alameda Corridor are our Pier 400 project and the almost 500-acre terminal for Maersk Sealand. What better partnership than to build the nation's largest terminal for the world's largest steamship line at the busiest port in the country!   We are developing a new industry standard while building in new levels of environmental responsibility.

Our developments are not created overnight. They represent years of planning by the Port and its customers so that we are ready when they need the facilities. Remember that Port facilities simply reflect the need to deliver goods to consumers and manufacturers. We respond to those needs.

California growth is unavoidable but the pace is somewhat predictable. The State's population is expected to grow by 12 million in 20 years – or more simply, to grow by one-third. Thus, our terminal facilities are prime examples of supply and demand.

A fatal mistake for any port or any company is to become complacent or to rely too much on old business models. International shipping lines can easily go elsewhere, taking with them the economic ripple effect and jobs their cargo brings here.

Maersk Sealand chose LA. We don't take that lightly. Nor should any of you. This region is attractive only as long as we continue to be ahead of trends so we can capitalize on opportunities.

And speaking of trends, it's interesting to note that the chief executive officers of some of Japan's largest steamship lines and conglomerates are unified in their belief that the economic situation will settle down in the next six months.

The unsettling events of recent months have brought about lower freight rates and a new round of rate cutting. The lines have consolidated their routes. Yet, many of these same major carriers have ordered larger vessels, betting on an invigorated climate very soon.

The president of one Japanese carrier, for example, predicts rapid growth by year's end of about 10%. That means that despite concerns about the need to reduce surplus space and costs, the principals of major steamship lines are already directing resources to handle the growth and build relationships among carriers through mutually beneficial agreements and mergers. They are focused on delivering quality service that will make the difference.

Again and again, we hear that the US is key.

Among Asian economies, China and India alone are expected to experience high growth. Especially vulnerable are Singapore, Malaysia and Taiwan where IT-related exports are highly dependent on the US market. However, these nations too have the potential for faster recovery, pulled along by the recovery of business conditions in our country.

In Japan, where deflation is more clearly apparent, the economic recovery is not yet in sight since, among other factors, domestic demand for goods is not yet high. With no definite scenario for a recovery from their recession, there is a growing likelihood that the Japanese economy will register negative growth for two consecutive years. This is the first time this has happened since the end of World War II.

In the materials industries, Japanese exports of chemical products and steel are dropping because of diminished demand at a time when the prices for same products are declining due to global oversupply.

On the brighter side, Japan expects to import more fruits and vegetables. However, the mad cow disease scare is still negatively impacting the import of beef into that country, something that should benefit, but hurts, our domestic US producers.

As an interesting observation, the president of Japan’s NYK Line recalled in a New Year’s greeting that 2001 was the Year of the Serpent, which comes around every 12 years according to the Asian zodiac. He notes that the past Years of the Serpent have witnessed, without exception, major global events that economically or politically shook the world. We’re talking about such events as the Stock Market Crash that triggered the 1929 Depression and the Berlin Wall coming down which symbolized the end of the Cold War.

2001 is now behind us.

Predictions are mixed for our Asian trading partners. Korea still reigns as the Port’s #4 trading partner and is looking toward 2002 and the World Cup for a better year. Reconciliation with North Korea eluded them last year amid scandals, political upheavals, and other events. However, Korea’s Financial Minister predicts that the economy will jump this year, riding on stable oil prices, signs of recovery of computer chip prices, sales of faltering domestic companies and increased earnings in the financial sector. Trade disputes in the semiconductor and automobile and steel industries need to be resolved to improve their export picture.

With some 400,000 foreigners expected to visit during the summer World Cup games, Korea hopes to bring in economic benefits of some $9.1 billion.

It is well established that US economic health is absolutely vital to global vitality. In turn, as I mentioned before, China is pivotal to worldwide economic health, and specifically represents a key factor in Los Angeles' future economic well-being.

The mainland is widely acknowledged as the fastest growing economy in the world.

The solution to their financial stability is simple: money. Overly simple?

Perhaps.

But, the Chinese believe that the key is policy guidelines to help state-owned enterprises become more competitive. Since China is now a member of the World Trade Organization or WTO, this is very likely to happen. Their recently announced guidelines encourage those state-owned enterprises to list on the domestic and foreign stock markets and to raise funds from multiple financing channels. The stock market listings are a means to reform inefficient firms since the competitive nature of capital markets forces companies to become more efficient, responsible and transparent.

So you see, it is about money. Simpler approval procedures for such things as foreign exchange transactions are called for. The WTO membership simply makes the competitive efficiency more urgent.

Chinese companies were also encouraged to promote products with export potential through sales agents abroad, especially in Hong Kong and Macao. The goal is to boost China's foreign trade to $600 billion by 2004 and to diversify its export markets. This is a monumental policy. Remember that China currently has more than one million private enterprises, many will need to be restructured to survive and prosper.

The future viability of China, Hong Kong and Taiwan are intertwined.

A six-point package to strengthen economic cooperation between Beijing and Hong Kong was introduced by Beijing Mayor Liu Qi recently. A major point of the plan is that Beijing will offer benefits to Hong Kong-invested joint ventures that are now exclusively granted to local Beijing enterprises, such as interest subsidies for technological enhancements.

Other measures are also being implemented by China to encourage business.

Foreign investment in infrastructure and transportation will dramatically change the reliability of logistics in China, long an impediment to increased trade.

Also proposed is the relaxation of business visa quotas for mainlanders, initiatives encouraging cooperation between Hong Kong businesses and private enterprises from the mainland, and other policies conducive to achieving an effective synergy between mainland enterprises and Hong Kong professional service providers.

These are remarkable strides. Formerly, only state-run foreign trade corporations were authorized to export. The companies with import-export rights will now be able to export their own products and import equipment directly without going through a third party. Again, this was a practice reserved for state-owned corporations in the past.

On China’s southern coast, Guangdong is gearing up for what is called "specialized township" development strategy. Efforts will be made to increase exports directly through Chinese ports or Hong Kong. For example, Xichao in Nanhai will focus on textiles while Lecong in Shunde will market furniture and Chencun will handle flowers.

Development in China will become more widespread following entrance into the WTO. In recent years, the central government has given development priority to the Yangtze River Delta and investment surged in that region as the expense of Guangdong. This trend is expected to continue.

For example, the Kerry Logistics group has teamed with Beijing Jingtai Industrial Holding in a venture dubbed "Beijing Logistics Hub" to offer comprehensive logistics services. This action has prompted Guangdong to join forces with Hong Kong to develop a logistics sector.

I know that this sounds like a lot of detail. But to put it in a nutshell, China has laid the groundwork for massive changes to its structure to boost trade in totally different ways and in unprecedented volumes.

A familiar face to us, Wal-Mart, operates 15 chain stores, 13 supermarkets and three club stores in nine cities on the mainland. All reported good volumes last year and are expected to improve this year. After a five-year campaign, Wal-Mart received formal approval to enter Beijing last November. This is expected to significantly increase retail competition.

Wal-Mart also plans to set-up a purchasing branch in north China this year.

Wal-Mart's domestic business reflects trends in some specific commodity sectors. For example, projections suggest that exports of low value toys and garments through the Port of Los Angeles from China and Hong Kong will be stable, albeit at quite low prices. However, the low demand for items such as kitchenware will negatively impact that trade sector.

The Hong Kong Shippers Council indicates that the IT industry should re-emerge as shipments of microchips to the US through Los Angeles increase. Another Chinese export commodity that is expected to increase is car parts.

The Trade Development Council in Hong Kong cautions, however, that China's WTO entry should not be construed as a "quick fix" for Hong Kong's recent downturn by any means. With the market liberalization that I have discussed and continued economic development, China provides longer-term opportunities for Hong Kong. Consumer spending patterns here and in major overseas markets are key.

As we have experienced here in the US, consumers generally tend to purchase basics and avoid extravagant items in times of economic uncertainty.

"Value-for-money" are the watchwords.

Companies are also going to try to keep inventory lean. Profit margins will be under continued pressures as smaller-lot orders and specialty discounters capture larger slices of the domestic market. Hong Kong companies, therefore, are realigning their operations to meet the increasing demand for quick response and delivery. Hong Kong textiles and clothing concerns may shift their production and sourcing to the Chinese mainland, thereby enhancing their price competitiveness and profitability. Hong Kong's more diversified export mix makes it less vulnerable to economic ups and downs. The strong domestic demand of the Chinese mainland will serve somewhat as a buffer.

Taiwan, on the other hand, badly needs a new economic relationship with the mainland. Its manufacturing industries have invested more than $60 billion in China in the past few years, using indirect routes, mainly Hong Kong. Yet, only a trickle of profit has returned to Taiwan.

Taiwanese officials predict that the island's economy will grow by 2% this year after decreasing by the same amount in 2001. The economy can be restructured by moving manufacturing offshore to exploit cheaper labor and land elsewhere, such as China, while developing new strengths in areas such as services and research and development.

In the medium term, resource allocation is being realigned between Taiwan and China through greater integration. Taiwanese corporations are focusing on higher value-added products and intellectual property, while China is trying to become a more efficient producer of low-end products. This process is already underway, with production of low-end electronics already concentrated in the mainland.

We hear the same mantra: in the New Year, the US economy will have to lead the world out of the recession. No other economy can do it.

The magnitude of American business is astounding: We are double the economy of Japan.

I call on you to embrace the reality of regional and statewide growth. Bold initiatives for planned growth are basic to our ability to meet the challenges of world economic leadership. Meet the challenges by finding those markets and developing those products which can become the new reality, the economic staples, of the world in 2002 and beyond.

Many of the San Joaquin Valley's cotton growers find themselves in a world with a glut of cotton. Cotton traditionally has been a federally subsidized crop.

Some farmers have refocused on fine Pima cotton, which still holds the market. Others, regrettably, have gotten out of the business to reduce losses. Still others have switched to fruits and marketable agricultural products.

It remains to be seen who made the right choices, and will stay in the "game" and profit.

Like no other time in our history, the United States can guide the world to renewed financial health. That's quite an opportunity and LA is best positioned to lead.

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