

Expanding Logistics Connections Enable Trade Expansion

Proposed corridor from Canada to Mexico an economic growth opportunity for Winnipeg.

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Bottom Line

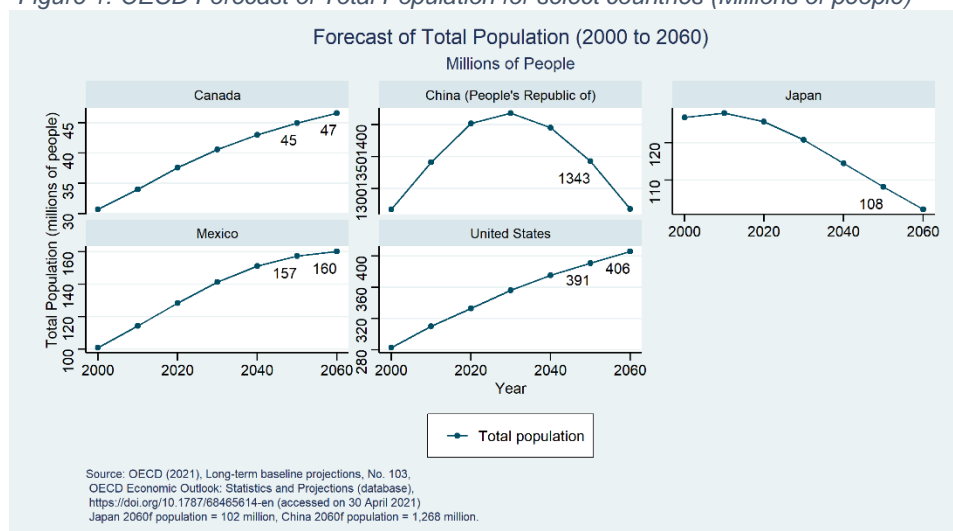
Canada is a major trading nation. To enable the expansion of our goods trade with the rest of the world, we need to continue expanding our logistics capacity.¹ Factors affecting freight demand include population, real GDP, real GDP per capita, flows of exports and imports by industrial sectors, and product type. Easing constraints to trade within and between countries - such as tariff and non-tariff barriers - increases the demand for freight.

Suppliers of freight (regardless of mode) can increase freight capacity (supply/unit of time) through better use of current capacity, and by technical change or innovation. There are times that require the expansion of a port, airport, rail yard, or set of intermodal logistics facilities to relieve congestion. The design and location of these multimodal nodes involve a high-level of due diligence, as they need significant financial commitments, take time to build, and are long-lived assets. A proposed logistics corridor to connect a new port in Mexico to a new logistics facility in Winnipeg by rail is the latest example of expanding logistics capacity across North America.

Analysis: The case for expanded freight handling capacity

Selected Freight Demand Factors

Figure 1: OECD Forecast of Total Population for select countries (Millions of people)



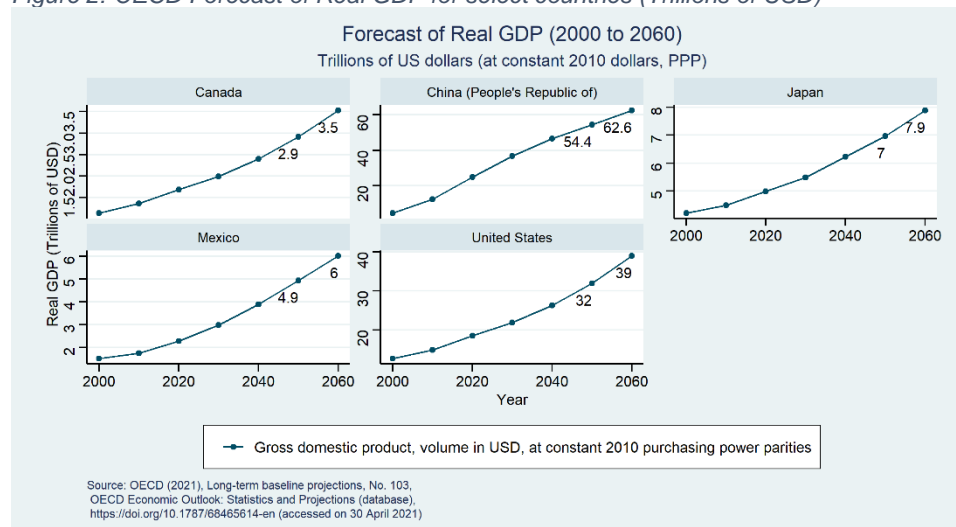
Freight demand is driven by factors such as the expansion of population, Real GDP, and Real GDP/population.

China and Japan's populations are both forecast by the OECD to fall between now and

¹ Enabling services trade requires expanding internet/communications technology and/or passenger logistics.

2060 (Figure 1).² At the same time, Canada, Mexico and the United States are all forecast to have increased populations.³

Figure 2: OECD Forecast of Real GDP for select countries (Trillions of USD)



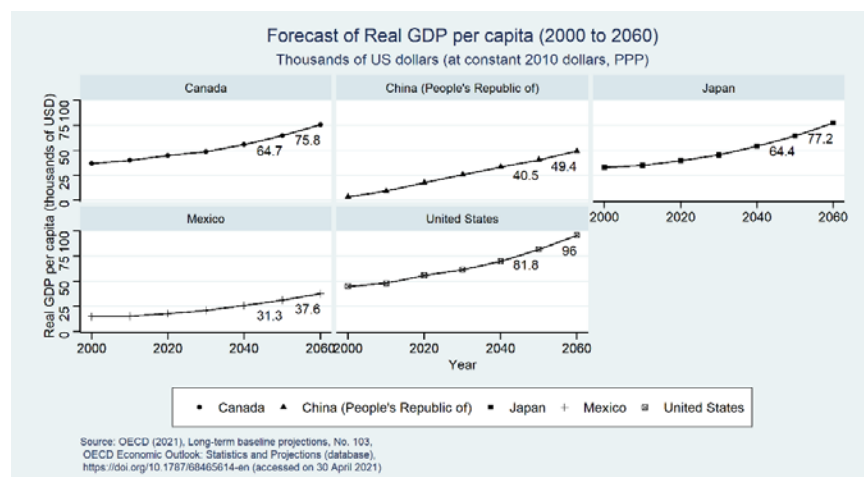
The OECD forecast to 2060 has Real GDP rising for all five countries (Figure 2).

In purchasing power parity (PPP) terms, China is expected to be the largest economy in the world, followed by

the USA.

When we look at real GDP on a per capita basis for these same five countries, we see all three are forecast to grow between now and 2060 (Figure 3).

Figure 3: OECD Forecast of Real GDP per capita for select countries (Thousands of USD)



The OECD forecast has thousands of US\$ real GDP/person for:

- **US** (US\$96),
- **Japan** (US\$77.2),
- **Canada** (US\$75.8),
- **China** (US\$49.4),
- and
- **Mexico** (US\$37.6).

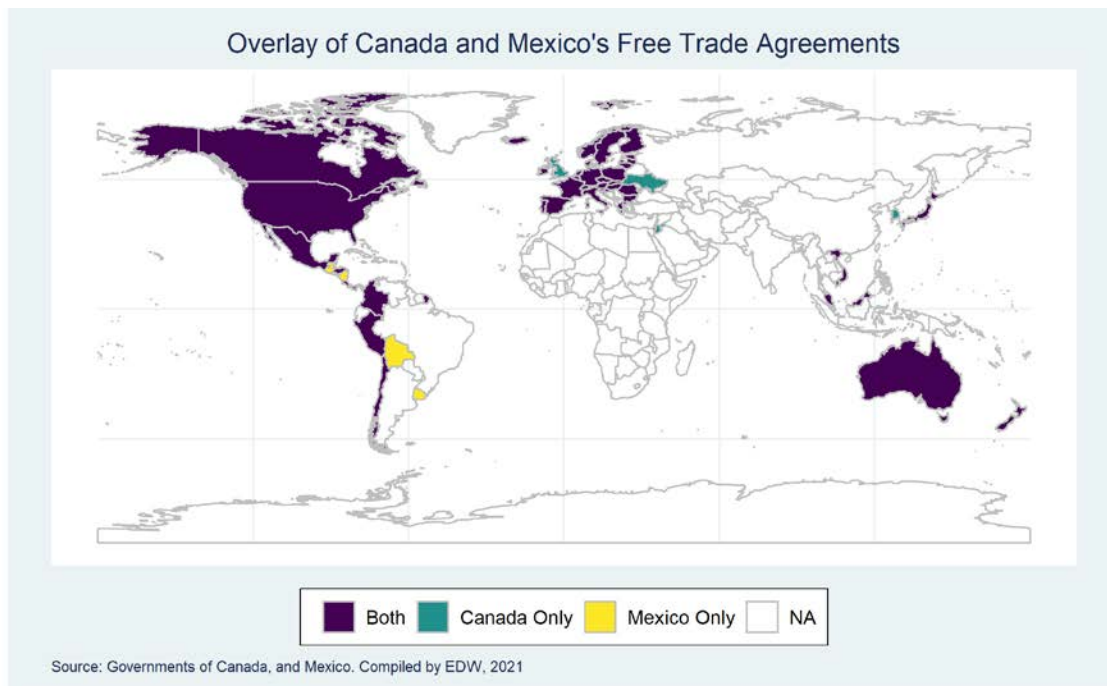
The expansion of world GDP and world trade will drive the expansion of cargo transportation demand: by ship, rail, truck, air, and intermodally. Freight demand between North America and Asia in particular, continues to rise.

² Source: OECD (2021), "Long-term baseline projections, No. 103", *OECD Economic Outlook: Statistics and Projections* (database), <https://doi.org/10.1787/68465614-en> (Accessed on 30 April 2021).

³ For an older view of the influence of population on logistics decision making for agribusiness, see Chris Ferris (December 2, 2015) "[World Grain Marketing: Why the location of population & economic growth is crucial for long-term planning](#)," Fields on Wheels conference presentation.

Another important driver of transportation demand is the opening of greater economic opportunities due to the signing of Free Trade Agreements (FTAs). Canada is a trading nation, with many FTAs in place. Taking advantage of these FTAs requires freight logistics, trade finance, and other factors. Then companies can increasingly conduct business-to-business (B2B) and business-to-consumer (B2C) activities. Canada's foreign investment promotion and protection agreements ([FIPPA](#)) work with many countries, helping to protect inward/outward bound foreign direct investment (FDI) too.

Figure 4: Overlay of Canada and Mexico's Free Trade Agreements in 2021



Canada and Mexico have free trade agreements (FTA) with many countries (**Figure 4**), with many of them overlapping. E.g.,

- NAFTA, updated to NAFTA 2.0 (AKA [CUSMA](#) in Canada, [T-MEC](#) in Mexico).
- CPTPP trade agreement.
- with the EU-27.

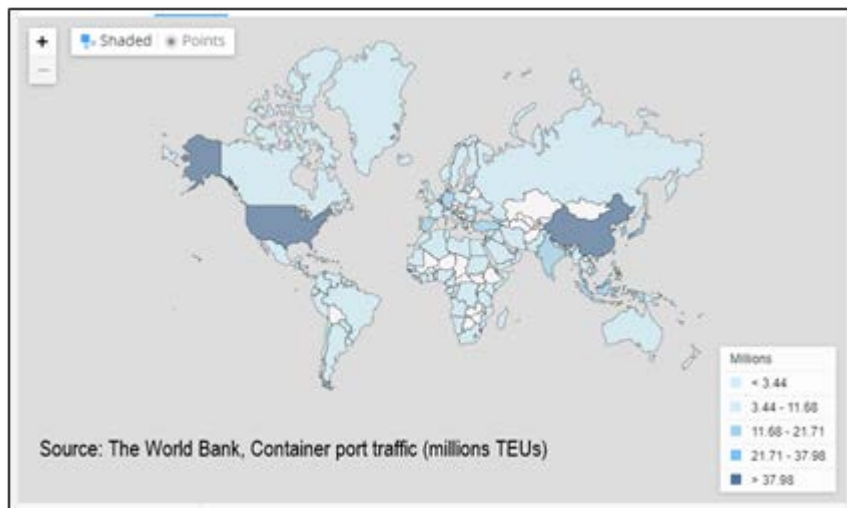
Freight demand between Canada's trade partners is expected to continue to rise, but it depends on having the necessary logistics connections.

Selected Freight Supply Factors

One of the biggest logistics shifts in the last century was [the emergence of standardized containerized shipping in 1955](#), which enabled intermodal shipping.

Containerization has driven down the cost of shipping many products, enabling the expansion of trade. Containerization aided the rapid emergence of China's economy, driven the expansion of world trade flows; especially since China joined the [World Trade Organization in 2001](#).

Figure 5: Container port traffic (million TEUs) by country, Source: World Bank



According to the UNCTAD dataset – “[Container Port Traffic](#)” - available from the World Bank, saw 796 million twenty-foot equivalent container units (TEUs) shipped in 2019. China is the single largest origin-destination, with 242 million TEUs in 2019 (30 per cent). The USA is second with 55.6 million TEUs. Mexico had 7.1 million TEUs, and

Canada 7 million TEUs (**Figure 5**).

Canada’s intermodal and non-intermodal rail shipments have continued to grow over the last number of years (**Table 1**). For example, the Railway Association of Canada’s 2020 Rail Trends [report](#) shows as strong increase in RTK between 2019 and 2010.

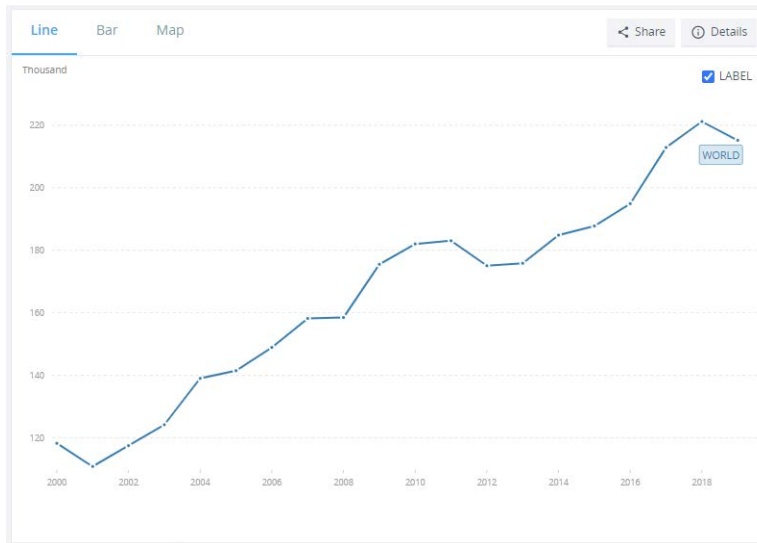
Table 1: Selected Canadian Railway freight traffic statistics (2019) Source: RAC

Freight traffic	2010	2018	2019
Revenue tonne-kilometers (RTK) (billions)	349.9	456.6	455.8
Carloads originated (thousands)	3,871.1	5,732.1	5,708.4
Intermodal carloads originated (thousands)	848	1,878	1,927
Gallons of fuel consumed (millions)	450.7	494.2	498.1
RTK per Gallon of fuel consumed.	180.2	214.9	214.1

Canada’s two class 1 railways ([CN](#), and [CP](#)) have significant railway assets in the USA and are interconnected with the other five class 1 railways in North America. There are interconnections between US and Mexican railways, with [KCS](#) operating a rail network in Mexico.

World air cargo has also been expanding rapidly since the early 2000s. According to a dataset from the World Bank – “[Air Transport, freight \(million ton-km\)](#)” - available from the World Bank, 2019 saw the world ship 215.2 million ton-KMs of air cargo (**Figure 6**).

Figure 6: World Air Transportation, freight (Million ton-KMs), Source: World Bank



In 2019, the top air cargo shipper was:

- The USA, which shipped 42.5 million ton-KMs (about 20%).
- China was second with 25.4 million ton-KMs.
- Canada shipped 2.4 million ton-KMs, and
- Mexico 1.1 million ton-KMs.

Expanding Logistic Capacity

With the expansion of goods flows between the CUSMA partners and trade into Asia expected to enhance by CPTPP in the future, there is demand for increased rail capacity between Mexico, Canada and the USA. The recently announced project, T-MEC Corridor or [USMCA](#) Corridor, which will connect a new port in Mazatlán, Sinaloa, Mexico to a new logistics facility in Winnipeg, Manitoba, Canada is expected to supply significant logistic capacity to help meet that demand.

[Engage Construction Management and Consulting Inc](#), based in Alberta was hired by [Caxxor Group](#) to lead the Canadian leg of the T-MEC project. Lindsay Morey notes in her recent article, that construction on the Winnipeg part of the project is expected to begin in the spring of 2022 and be completed by the spring of 2024.⁴

The new Mazatlán port, when complete, is expected to be able to handle 8 million TEUs/year (rivaling the container ports in Los Angeles and Long Beach, California).⁵ The port is expected to also handle vehicles, bulk commodities, and petroleum products.⁶ This will open opportunities in Winnipeg related to in- and out-bound freight and support Manitoba's economic development.

EDW Contacts for Assistance or Inquiries:

For Winnipeg looking for help accessing government programs, please reach out to our Yes! Winnipeg Team through us [Help us help you form](#) if you are not sure whom to contact on the YW team. For general inquires please email wpginfo@edwinnipeg.com. For Marketing & Communications Inquiries, please email: marketingandbranding@edwinnipeg.com.

⁴ Lindsay Morey (Apr 9, 2021). "[Park firm to head up Canadian leg of major \\$3.3B North American infrastructure project](#)," Sherwood Park News.

⁵ Twenty-foot equivalent units (TEU). A 20-foot container = one TEU, and a 40-foot container = two TEU.

⁶ Real Agriculture (October 19, 2020). "[From Winnipeg to Mazatlán: \\$3.3 billion USMCA rail corridor proposed](#)."