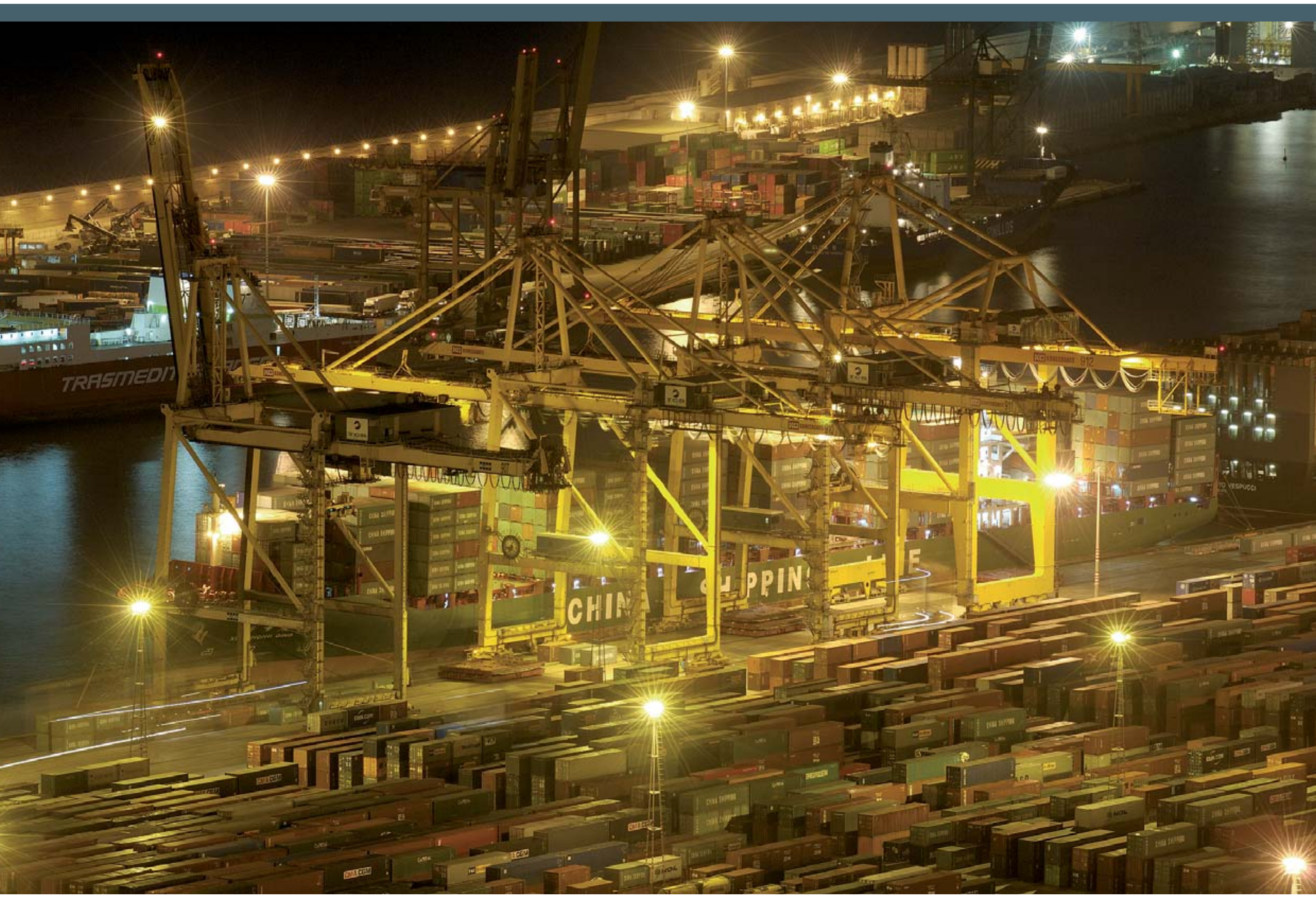

Identity, localisation, logistics: Handled in Catalonia?

JORDI VALLS

Differentiation provides competitiveness, more productivity and comparative advantages, especially in environments with many big players and those, as is the case of logistics, where we want to gain market share and become one of the world's largest operators. However, this is an industry in which differentiation is relatively more difficult than in others and overall power has to do with the ability of handling enormous volumes of goods swiftly and efficiently and not so much with a specific identity the consumer often does not recognise. However, good differentiation requires associating our business with certain distinctive values or characteristics, but they possibly need to be kept in the domain of economic differentiation, so linking them with the collective image of a specific country or territory is not necessarily very effective.

Productive location decisions

One cannot pretend to use the advantages of international trade without accepting the rules of the game and the risks it bears. International trade helps us be more competitive and productive (as it allows us to specialise in producing certain goods and services and buy the rest), but opening abroad involves moving in a much larger market where everybody seeks the same and is able to do whatever to take our place at any time. Companies move to a given territory because they expect higher benefits or better results, and once the advantage allowing them to obtain these better results disappears or a territory offering better conditions appears, they leave.

Countries attract and keep business and companies according to known and widely studied, yet changing and very fragile criteria and conditions. These conditions can be linked to a specific territory to become part of its physical, economic, social and productive characteristics, but companies are not usually loyal beyond the advantages provided by a territory.

In this respect, economic geography has widely studied business location decisions related with competitive advantages of the different territories, so the factors having an impact on these decisions are quite well known. Generally speaking, there are clearly articulating concepts like competitiveness and productivity, shown in the analyses as Porter's diamond model, by which business and investment are localised based on four types of conditions. First, conditions of production factors, understood not only as availability and relative cost of capital and labour but also distinguishing basic conditions (physical setting, climate, labour market, resource availability, etc.) from what he calls advanced conditions (communication infrastructure, educational and research institutions, high added value workers, etc.). Second, demand conditions, that is, the size of the domestic market (and hence transport costs). Third, internal organisation of the production system, i.e. existence of related and internationally competitive companies, either suppliers or users. And fourth, the institutional environment, the regulatory framework of business, in a word, legal, political and social stability.

Related with the two last mentioned factors (especially the third, the business structure in the industry), the so-called «new economic geography» that has been making progress over the last decades thanks to economists like Paul Krugman and Masahisa Fujita, gives much importance to what is known as «agglomeration economies», an idea by which business tends to concentrate. In words of Krugman, «if a big part of [New York-based] financial companies believed that most of the other financial companies are about to move to Philadelphia, their forecast would come true».[1] Or, more generically, Fujita states that localisation is a consequence of combining natural geography and the trend towards agglomeration set by spatial economy: «aspects favourable for a given location like the existence of a good port usually have a "catalytic" role; that is, they work in a way that when a new centre comes up it will be located there […]. But when a new centre is established it will grow in a self-feeding process, so it could reach a point of growth at which the initial location advantages become irrelevant compared to self-sufficient advantages developed by agglomeration.»

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World trade scenarios and their management

Regarding world trade, the economic crisis has led to a situation considered an outright collapse by international organisations. The 2010 annual report published by the World Trade Organisation[2] points out that the shock caused by the financial crisis in late 2008 caused the biggest downfall in trade in the last seventy years, reaching its climax in 2009 when it shrank by more than 12%, an unprecedented record in recent history. The last year world trade had decreased significantly compared to the previous year had been 1982, and in that case the decline was 2%, six times less than in 2009. Poor demand all over the developed world was the main cause of this collapse in trade, but protectionist temptations (and pressures) in many countries during the most acute phases of the crisis have also contributed to that, although they fortunately seem to be finally over as they risked to slip into a much worse situation.

In fact, trade recession has been possibly one of the phenomena hitting all economies in a most uniform way, much more than the decline in gross domestic product (GDP). World exports specifically went down by an average 13% (like in China), but in Europe it was 14%, more than 17% in Russia and 9% in the United States and Brazil. Imports moved along similar lines.

Trade recession in 2009 has been possibly one of the phenomena hitting all economies in a most uniform way, much more than the decline in gross domestic product.

Less trade means less foreign direct investment (FDI) and hence less new activities in those countries traditionally receiving more investment. In this respect, the latest reports published by the United Nations Conference on Trade and Development (UNCTAD)[3] show that FDI plummeted by 16% in 2008 and almost 40% in 2009, at the height of the crisis, but a recovery was noted in 2010 that is likely to consolidate and allow to return to a clearly positive trend in 2011 and 2012.

However, this return to growth will occur in a new environment in which the conditions and the scenario of the global economy will be changing radically: developed countries become less attractive (e.g. Spain fell from the sixth to the twentieth position of countries attracting most investment), while investment will increasingly go to emerging countries. According to the referred UNCTAD report, these economies are already attracting more than half the FDI while issuing over 25% of it, a trend that will intensify in the next years. Together with stimulation policies in most countries implementing measures to attract investment, encourage its consolidation and keep and make it difficult to leave, this situation creates substantially new conditions in productive location processes.

In any case, world trade and foreign direct investment will come back to growth, but nothing will be like before. Internationalisation of companies goes on, as does the trade volume and globalisation of markets, but the main players in this new stage will be different from the previous one regarding territories (Ireland and Spain for instance will become less relevant both as investors and as receivers to the benefit of emerging economies), industries (with growth in areas like renewable energies, recycling and manufacturing based on low-carbon technologies) and the main players (transnational and global companies will become increasingly relevant).

The market share increase will need to come from management of corridors emerging countries are not able to manage appropriately.

So in terms of attracting new business, Catalonia and Spain will be less relevant than so far.

The advantages, our assets will need to be different and competition will be much more intensive, inversely proportional to likeliness of being successful. All in all, we will need to do more efforts to turn our advantages into results, and the benefit will be much lower than what we used to obtain over the last decades.

Of course, in the area of logistics, transport and thus management of trade in goods and services, getting away from the main flows involves missing opportunities. The market share increase will need to come from management of corridors emerging countries are not able to manage appropriately (north-south corridors), economies of scale (the trend towards concentration of players is common to almost all industries but especially so in logistics and transport) and the ability to find new solutions and values in an environment in which increasing energy and fuel (and hence transport) prices can have a significant (though very uncertain) effect on the maximum distance between the places of production and consumption.

Differentiation techniques in the transport industry

Of all items in the value chain, logistics is probably the least interesting for the consumer and the one creating the least association with any identity. It is easy to associate design, quality, packaging, merchandising, the concept, technical or physical features of a product or even its manufacturing process to a certain idea. But the stage between the product leaving the factory and its arrival to the point of sale is hardly interesting unless we decide for instance to go for e-commerce.

Beyond this difficulty, logistics and transport are usually known (if they are) in a negative rather than positive way: everybody has heard about certain airports with a high likeliness of losing the luggage, but it is not usual to find a hub known for its efficiency in the collective mindset.

In this respect, if a concept cannot be socialised, it is difficult to create a brand or associate it with an identity. Even in such complex areas like innovation and technology transfer, Silicon Valley has earned a place in the collective mindset, which shows the difficulty of conceptualising logistics.

Additionally, quality in logistics and transport is hardly associated with an identity. The main global logistic operators are not usually known or associated with any, for instance the ports of Singapore, Hong Kong, Shanghai, Dubai, Rotterdam, Hamburg or Antwerp, any large airport (Atlanta, Heathrow, Chicago, Beijing, all with 65 to 90 million passengers a year) or the main container carriers (APMMaersk, Mediterranean Shag Co, CMA-CGM Group, etc.). To give one last example, the port of Barcelona, the world's 41st largest, handles a container volume similar to less known ports like Savannah on the US East Coast or Marsaxlokk in Malta.

The main success factor of the leadership in Europe the port of Barcelona has in cruises (taking the world's 4th place) is the deployment of an excellent public-private strategy.

Like in other industries, the opposite effect takes place in logistics: the product has an impact and impregnates the identity of the territory. Rotterdam, Hamburg, Genoa and Marseilles have become cities with an identity heavily marked by their seaport, as occurs with Kobe (Japan) and Antwerp, where port activity has additionally a special feature, namely diamond trade.

The conclusion thus needs to be that any effort to include a sign of identity (either distinctive or in common with other industries) into our logistics and transport is unlikely to become a decisive factor for the development and success of this business. In fact, the main success factor of the leadership in Europe the port of Barcelona has regarding cruises (taking the world's 4th place), certainly based on the city's appeal, is the deployment of an excellent public-private strategy developed in terms of strict effectiveness, business efficiency and positioning in the international market.

Let demand in and offer out

The logistics industry is by definition a tool facilitating production and consumption in the rest of branches. No other is as indispensable and transversal within the whole economic structure. Without logistics, consumers have no access to production and it generally works like a lubricant allowing to match offer and demand. In this respect, logistics can have three very different profiles.

Firstly, in terms of domestic market, logistics has a defined scope, a size and an outreach determining the sort of business. Even in hardly open economies, production management, handling and distribution, even within a limited scope, is done efficiently and it is a business requiring a certain logistic capacity. Secondly, in increasing the degree of economic openness, the biggest export and import volume involves that demand by a part of our production as well as offer by a big portion of our consumption are at a much bigger distance than before, so the according logistic processes need to be articulated.

Although, as has been said before, he economic crisis has had a considerable impact on trade, Catalonia still had a foreign trade volume of roughly 100 billion euros in 2009 (30% less than in 2008), amounting to almost half its GDP.[4] Hence it is obvious that we have achieved a logistic capacity us to operate fluidly in the European market (the destination of 75% of Catalan exports and the origin of more than 65% of imports) but also to start entering emerging markets (especially in the Far East).

Logistics can become an industry outside our production and consumption if there are certain favourable conditions regarding geographic location, development and complexity of the economic structures as well as technical features making it possible (intermodal accessibility, availability of wide areas of logistic activity, hinterland size, etc.).

▲ The port of Barcelona, the world's 41st largest, handles a container volume similar to less known ports like Savannah in the USA.

And thirdly, logistics can become an industry outside our production and consumption to become an operator managing flows and transactions in the global market, that is, of goods we neither produce nor consume but only handle to bring them to their destination.

It is only possible to reach this situation if there are certain favourable conditions regarding geographic location, development and complexity of the economic structures as well as technical features making it possible (intermodal accessibility, availability of wide areas of logistic activity, hinterland size, etc.).

In this respect, the logistics industry in Catalonia also has a very significant component of this business: for instance, almost 20% of the 42 million tons of goods handled by the port of Barcelona in 2009 come from transit operations, while almost 85% come from foreign traffic, of which nearly 40% are exchange with emerging markets (Northern Africa, Middle East and South America's Atlantic rim).[5]

The global logistics map: in what league are we playing and in which we want to play

According to the aforementioned, logistic activity in Catalonia already plays a relevant role as an industry beyond managing our offer and demand and is possibly in the position to increase this role to become one of the three largest logistic operators in Europe, the largest in the Mediterranean and a preferred player in the relations with the Asian market as a medium-term strategic goal. However, it is necessary to consider the situation of the global logistics market to enter this reduced and exclusive group of global operators.

The position of our main logistics infrastructures in global rankings have been referred to previously, but the distance still remaining to become part of the biggest operator groups is still noteworthy: the port of Barcelona handles a quarter of the volume of Rotterdam or Hamburg, 10% of Hong Kong and roughly 8% of goods handled in the world's biggest port, Singapore. The Barcelona airport has 27 million passengers a year, roughly one third of the world's largest airport (Atlanta at more than 88 million) and less than half the biggest European hub (Heathrow at more than 65 million passengers).

In any case, the evolution of the global economy will bring about very significant change in world trade and thus of the main traffic and exchange points. This change and the perspectives for the next years can be summarised in the following items:

- **Recovering exchange growth but with a different pattern**. Emerging countries will take over command in global economic growth from both a demand and an offer perspective. South-south and north-north exchange will thus become more important and these will be the most relevant routes to gain market share as a global logistics operator.

Emerging countries will take over command in global economic growth from both a demand and an offer perspective. South-south and north-north exchange will thus become more important and these will be the most relevant routes to gain market share as a global logistics operator.

- **Concentration and hierarchisation of players.** Full inclusion of emerging countries into the global trade will mean more complexity in managing the flows of goods and persons, which will also involve the creation of a more complex and specialised structure with a much more segmented distribution of the functions of the logistic chain.

- **Need for new forms of management. Increased** complexity will bring about the need to develop aspects like intermodality: today, the world's main connection points for goods are not located so much in ports but in airports (e.g. Shanghai and Hong Kong), and this trend will increase.

- **Including criteria to reduce the environmental impact and fostering a low-carbon economy.** Exhaustion of fossil fuels and impossibility of combining higher resource consumption growth with sustainable environmental balance affects logistics and transport extraordinarily. Only those operators able to include environmental sustainability criteria for flows will have the opportunity of belonging steadily to the group of the world's ten best operators.

Sharing is not weakening, or the co-branding way

Throughout the article we have been highlighting at several points the issue of size as an indispensable factor for competitiveness and the positioning as a world-scale logistics operator.

In this section we want to deepen into this need, especially based on two pillars that in fact also have to do with identity collaterally: overcoming local dynamics and forging partnerships with additional players allowing to reach the necessary level of complexity and competitiveness.

It needs to be considered that the immediate scope of a global logistic player (its hinterland) is at least hundreds of kilometres big and its area of action and influence needs to go far beyond that. This is why the most successful and efficient strategy is the one allowing to join forces within that hinterland so all players operating there become more competitive and reach altogether a higher market share abroad against other important areas. If instead, what occurs is a situation of internal non-cooperative competition within one same area, he result is weakening of all players abroad and wasted growth opportunities to the benefit of other more complex and cooperative environments.

The most successful and efficient strategy is the one allowing to join forces within the hinterland so all players operating there become more competitive and reach altogether a higher market share abroad against other important areas.

So it is about defining a strategy at different levels in which each operator specialises and contributes with its growth to the development of the integrated operator. This strategy involves of course including similar activities like combining other stages in the logistic value chain allowing to gain size and response capacity in all stages to the process. In this respect, in Catalonia and Spain we have an extraordinary opportunity thanks to our location and geographic conditions as well as our economic and strategic positioning in relation with the European Union and South America. The million hectares devoted in Catalonia to (private and public) logistic use, of which over 300 are located in Barcelona (ZAL), are just an excellent start. The different cooperation levels need to be assessed, from defining joint development strategies to the whole of identities to create new concepts and potentialities (co-branding), which requires, as we said, to overcome local and regional dynamics and reluctance regarding possible threats (loss of relevance, decision-taking capacity, identity, etc.) that are in fact part of that local rationale only.

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Is identity public?

Coming back to the general terms on economy of identity, a thought on its ownership and responsibility is appropriate. On one extreme, identity can bear a collective component difficult to own (Europe, the euro, industrial tradition or life quality are commonplace arguments for Catalonia's identity in attracting investment); on the other, it can be an artificially constructed image (in a positive sense) by means of a thoroughly elaborated communication strategy.

Public authorities and the private industry need to develop projects and share responsibilities and strategic risks, like fostering and expanding common economic and social values.

But especially when the identity is built out of collective values, it seems that it has to be public authorities trying to foster and maintain it, and this is the point, as occurs in many other areas, at which an intensive public-private cooperation process has to be initiated.

Although public authorities and the private industry have traditionally had opposed philosophies and goals and related only in very specific projects or areas, the moment has probably come at which this partnership shall go far beyond, especially in those (many) aspects in which their (certainly) different characters allow them to learn from and take advantage of each other to reach milestones that would otherwise be impossible. It is not only about developing PPP (public-private partnerships) to foster investment or new infrastructures or to provide services to citizens, but also about sharing responsibilities and strategic risks, like fostering and expanding common economic and social values. In fact, as we were saying in the previous section, it is about collaborating to improve the collective position but also to find a common space shared by all out of which a new reality shall be created that is much more productive, competitive and favourable to our development as a society.

JORDI VALLS

Degree in Law from the UAB.

President of the Barcelona Port Authority.

He has been Minister of Labour and Industry of the Government of Catalonia and mayor and city councillor of Manresa,

He has worked with the Chamber of Commerce and Industry of Manresa and has been the president of Localret, member of the Managing Council of the Consorci Hospitalari de Catalunya, president of the Finance Commission, vice-president of the Federation of Municipalities of Catalonia and member of the UPC Social Council. He has also worked as a specialist in administrative and mercantile law.

http://www.portdebarcelona.es/wps/portal/!ut/p/c1/04

Notes

1. Original English version published in *Papers in Regional Science*, vol. 83, núm. 1, January 2004, and reproduced in Spanish in *Investigaciones Regionales*, Asociación Española de Ciencia Regional.

2. *World Trade Report 2010*, Chapter 1: *The Trade Situation in 2009-2010.*

3. *World Investment Report. United Nations Conference on Trade and Development, July* 2010.

4. More detailed information on www.idescat.cat

5. *Estadísticas de tráfico del Port de Barcelona, datos acumulados diciembre de 2009.* More information available on www.portdebarcelona.es.