Agility Emerging Markets Logistics Index

2017

Ti

Agility
A New Logistics Leader

Contents

Contents

The Agility Emerging Markets Logistics Index

One

Essa Al-Saleh, CEO & President
Agility Global Integrated Logistics (GIL)

Summary:

- Big geopolitical events across the globe have an impact on emerging markets
- EMs remain an essential area for growth and investment despite global realities
- China, India remain the leading countries on the Index given their size and dynamism
- More than ever Agility EM Index helps clear the fog on EM dynamics.

The UK Brexit vote and the US presidential election brought a torrent of speculation about their effect on emerging markets. Typical was a Bloomberg News headline: “Emerging Market Winners and Losers after Trump.” There is nothing wrong with that sort of analysis. Big geopolitical events inevitably ripple through emerging economies, affecting portfolio flows, interest rates, exchange rates, commodity prices, manufacturing demand and foreign direct investment, among other things.

John Manners-Bell, CEO
Transport Intelligence

The growth of emerging markets has over the past few decades been predicated on their integration with the consumer markets of the West. For years this relationship has gone unchallenged, with consumers enjoying lower prices and developing markets benefiting from jobs and rising levels of disposable income. Yet, the impact of globalisation has not benefited everyone. Fears have grown over the loss of jobs in Europe and the US, particularly to Asia, and bubbling resentment finally manifested itself in political change in 2016.

Potentially this could have significant consequences for the future of emerging markets. Growing protectionism, especially in the US, could hinder economic development in regions such as Asia and Latin America in particular. Long a target of the new Trump administration, the Trans-Pacific Partnership agreement (involving the US and many other Asian countries) is regarded as already dead in the water and speculation is rife that US companies which invest abroad could be subject to punitive taxation.

Taking a step back and assessing what has transpired in

But for companies focused on emerging markets over the long term, instant analysis is no substitute for closer, more careful examination. Companies that are looking at individual markets or weighing the relative merits of different developing economies should find the 2017 Agility Emerging Markets Logistics Index useful for perspective, context and insights.

This is the 8th year we have produced the Index in partnership with the leading logistics research firm Transport Intelligence. With the addition this year of Iran, Myanmar, Ghana, Angola and Mozambique, the Index has grown to 50 countries. We put off plans to add a sixth new market, Cuba, despite the excitement about its prospects and potential. For now, there is a shortage of sound data from trusted sources when it comes to Cuba's economy and infrastructure.

India is an Index darling for the second consecutive year. In our survey of more than 800 supply chain industry executives, India was the leading pick as an investment destination, an indication of the enthusiasm generated by some of the reforms undertaken by the Modi government. In the data portion of the Index, robust economic growth propelled India to the No. 2 spot overall behind only China. Looking into 2017, however, there is uncertainty as a result of the government's surprise decision in November to take 500-rupee and 1,000-rupee bank notes out of circulation. That move will undoubtedly be jarring in the immediate term for a society where use of mobile payments, credit cards and other cashless forms of payment is not widespread.

Two countries emerging from international economic isolation – Iran and Argentina – performed well in the 2017 Index. Transport Intelligence calculated a prior-year score for both countries in order to offer a basis for year-on-year comparison. The results were startling: Index newcomer Iran ranked 18th, which would have meant a year-on-year leap of eight spots in the rankings. Argentina, which is trying to re-integrate with the global economy after turning its back on international creditors, climbed three spots to No. 28. Elsewhere, Bahrain, damaged by sectarian unrest in recent years, appears to have benefitted from recent stability: it rose five spots to 23rd. Africa's largest economies, Nigeria and South Africa, performed poorly this year, tumbling lower in the Index amid political uncertainty and low prices for oil, minerals and other commodities. Smaller the year gone by, it seems appropriate to describe 2016 as a challenging year for emerging markets.

China's economy is still trending down from the historic growth rates seen over the last two decades, with analysts concerned about both official growth numbers and the rate at which the economy's transition is progressing. The fortunes of emerging markets worldwide remain bound up with China too, in Latin America where commodity export dependant markets like Brazil, Chile and Peru send between 15% and 25% of all their exports, for example.

Other drivers of uncertainty include oil prices, with lower revenues prompting a wide range of outcomes. In Venezuela, an economy almost entirely dependent on income from its oil sector has effectively ground to a halt, while in Saudi Arabia, wide-ranging economic transformation plans have been introduced alongside the removal of subsidies, one of the key mechanisms through which the Kingdom shared oil wealth with citizens.

In addition, emerging market currencies remain vulnerable. Less certainty that emerging markets will sustain rapid growth rates as demand for their exports decline has been matched with the looming spectre of interest rate rises in the US. Vast sums of credit made available to emerging markets during the 2000s is denominated in US$. Weaker currencies mean not only that repayments are more expensive, but capacity to invest in economic development is reduced.

In a wider context, emerging markets must deal with these issues against a backdrop of slowing global growth. Figures from the IMF indicate that 2016 will be the fifth consecutive year with global economic growth below its long-term average of 3.7%, and its projections suggest 2017 will be the sixth. Moreover, there is the added pressure of a slowdown in global trade. WTO data predicts that, for the first time in 15 years, trade growth will be slower than economic growth.

While, in aggregate, these challenges have contributed to a slowdown in economic growth more widely across emerging markets, not all are struggling. India has seen booming growth of more than 7% in recent years, with vast demographic advantages set to coincide with reforms, such as the long-awaited Goods & Services Tax, that looks set to introduce efficiencies and unlock value in the market. Iran, too, on the back of re-

African economies – Uganda, Tanzania and Ethiopia – all improved their Index rankings significantly.

Brazil held steady in the rankings, but in the survey, industry executives put blame for its recent economic woes squarely on "poor governance." In a short span, Brazil has hosted the World Cup and the Olympics, and witnessed the historic impeachment of President Dilma Rousseff – all of which took place with the country in recession. Investors and supply chain professionals are eager to see growth and stability restored in Latin America's largest economy.

The 50 Index countries are ranked by weighted sets of factors. The factors used to calculate market size and attractiveness account for 50%; infrastructure and transport connections provide a "connectedness" score weighted at 25%; "compatibility" data offer a picture of the overall business and trade climate, and also count for 25%. Twenty-four of the 50 countries in this year's Index experienced year-to-year erosion in their overall scores. It's unclear whether that is an anomaly or the start of a trend, but it's worth watching.

The Index and survey offer a snapshot, a look at how these 50 countries stack up against one another in the data and a sense of sentiment about them among logistics industry executives. The Index is not meant to take the place of in-depth market research into an emerging market. Nor will it substitute for long conversations and careful scrutiny of potential commercial and government partners. Even so, we believe it will prove useful to companies looking for a deeper understanding of the world's most vibrant markets – and the risks and rewards that await there. Thank you for reading.

emergence onto the global economy looks set to provide significant opportunities to the logistics sector over the next few years. The country's sizeable and relatively wealthy population, as well as its oil & gas sector and manufacturing base, will benefit from renewed interest in investment. Indeed, Iran looks set to become a major subject on boardroom agendas across the logistics industry – in the data-driven Index, the country entered the top 20 for the first ever time thanks to a rise of eight ranking positions, the highest of any of the 50 markets assessed this year. Iran also entered the top 10 emerging markets with the most potential to grow, according to survey respondents, and became the emerging market with the eighth most planned investments.

Overall, emerging markets retain much of the capacity for growth and the dynamism with which to create and capture value that much of the investment in them was built on. In the year ahead, though, a potent mix of challenges, downward pressures and risks threatens to reveal which emerging markets have foundations built on sand.

Sources

Two

The Agility Emerging Markets Logistics Index has three main components. First is the Index country rankings, a look at the composite scores of the 50 Index countries based on a combination of their market size and attractiveness; market compatibility or overall business climate; and market connectedness or transport infrastructure and customs/border efficiency. Second, is an examination by volume and mode of transport of major trade lanes linking emerging and developed markets. Third is a survey of trade and logistics industry professionals.

Data for the Index country rankings comes from the International Monetary Fund, Organization of Economic Cooperation and Development, World Bank, government statistical agencies, United Nations and UN agencies, World Economic Forum, International Trade Centre and International Air Transport Association.

Trade lane data comes from the United States Census Bureau and Eurostat.

Methodology

Three

Definition of ‘Emerging Markets’

The term ‘emerging markets’ was first coined by the World Bank’s International Finance Corporation (IFC) in 1981. According to its definition, an emerging market is a country making an effort to improve its economy with the aim of reaching the same level of sophistication as nations defined as ‘developed’. An emerging market is further characterised by the IFC as meeting at least one of the two following criteria:

1. It is a low or middle income economy, as defined by the World Bank
2. Its investable market capitalisation (IMC) is low relative to its most recent Gross Domestic Product (GDP).

The Agility Emerging Markets Logistics Index

The Agility Emerging Markets Logistics Index uses three metrics to assess and rank 45 emerging markets. The metrics measure the countries’:

- Market Size & Growth Attractiveness (50% of overall Index score)
- Market Compatibility (25% of score)
- Market Connectedness (25% of score).

Market Size & Growth Attractiveness (MSGA) rates a country’s economic output, its projected growth rate, financial stability and population size.

Market Compatibility rates emerging markets according to their market accessibility and business regulation, foreign direct investment (FDI), market risk and security threats, as well as the level of likely demand for logistics services based on the country’s economic development.

Market Compatibility is a blend of:

- A country’s development through the importance of its service sector – indicative of the level of outsourcing of logistics services

- Urbanisation of population – a driver of manufacturers' centralised distribution strategies and the likely consolidation of retailing
- Distribution of wealth throughout the population – indicative of the widespread need for higher value goods often produced by international manufacturers, as measured by the Gini Index
- Foreign Direct Investment (FDI) – an indicator of the penetration of an economy by international companies
- Market accessibility – how easy it is for foreign companies to enter the market and deal with existing bureaucracy and regulation
- Security – this measures the risk to companies' operations from threats such as theft, piracy and terrorism.

Market Connectedness assesses a country's domestic and international transport infrastructure and how well they connect.

Specifically, this involves:

- The frequency and range of destinations of its liner shipping connections
- The level of airport infrastructure relative to the market's size
- A rating of its overall transport infrastructure
- A rating of the efficiency of its customs and border controls.

The Agility Emerging Markets Logistics Index for Countries with GDP more/less than US$300bn

GDP is measured in current US$. GDP data has been obtained from the World Bank.

New Countries in Agility Emerging Markets Logistics Index 2017

This year's Agility Emerging Markets Logistics Index has been expanded to 50 countries with the addition of five markets: Iran, Ghana, Myanmar, Angola and Mozambique.

As Iran emerges from international isolation, the global logistics industry has taken much interest in the country, now widely regarded as an emerging market offering significant opportunities. Myanmar has also garnered greater interest from logistics providers in recent years as a number of major LSPs have ramped up their operations, many establishing their own offices there for the first time rather than using agents. The three African markets of Angola, Ghana and Mozambique were added in part to give sub-Saharan Africa a greater presence in the Index. Though they are also interesting markets in their own right: Angola is one of the largest economies in the region thanks to its oil wealth, Ghana is also a sizeable economy with considerable mineral and oil riches, while Mozambique is vying with Kenya and Tanzania to become a regional hub in East Africa. Cuba was also considered for possible inclusion in the 2017 Index. Transport Intelligence and Agility decided against adding Cuba until there is more reliable data on the Cuban economy, infrastructure, customs regime and business climate.

Restatement of 2016 Index Data

With the inclusion of the five new countries, Index scores and rankings for 2016 have been restated. This is because the model has an element of relative scoring to it. In other words, for each metric, whenever a new country is added to the overall group of countries being examined, the scores of all the other countries change.

This method identifies important differences between emerging markets. Consider a comparison of GDP in absolute and relative models.

In an absolute model, assuming China gets a score of 10, Chile and Mozambique would get scores of 0.21 and 0.01 respectively as their GDPs are 47 and 755 times smaller than China's. Clearly then, most countries would have very low and close together scores.

With the relative Index model that is used, China still scores very highly as it is a very large market, but crucially, the other countries are attributed higher scores to more fairly and accurately represent the economic opportunities available within them. Overall, such an approach makes for a more useful and insightful Index.

Trade Lanes

The trade lane section measures the volume of goods shipped by air and sea between the emerging markets included in the Index and the US/EU. The trade lane section includes two parts:

1. Top 10 Trade Lanes – Air and Sea, Import/Export

A list of trade lanes with the highest volumes, as measured by tons, split by air and sea, and by import and export (from emerging markets to the EU/US and to emerging markets from the EU/US).

2. Fastest Growing Trade Lanes – Air and Sea, Import/Export

For air and sea, by imports and exports, the 25 fastest-growing trade lanes for each case have been ranked by their growth in 2016. In addition, an index has been calculated with a base year of 2005 to offer a long-term perspective on each trade lane's performance.

2005-2015 data are 'actual' figures, whereas 2016 data are forecast figures based on actual monthly data from January-August 2016. A forecast model which accounts for seasonality has been applied to estimate full-year 2016 figures. For sea freight, tonnage relating to HS2 product group 27 "mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes" has been subtracted from total figures. No product groups are excluded from air freight figures. To qualify as one of the 25 fastest growing trade lanes, a certain volume must be reached. For sea freight trade lanes this threshold is 1 million tonnes. For air freight, it is 10,000 tonnes. This prevents relatively insignificant trade lanes entering the rankings.

CAGRs have been used to measure each trade lane's performance. CAGR stands for Compound Annual Growth Rate. It measures the constant annual percentage growth rate of a time series between a particular start and end point. While CAGRs can be a quick and useful way to analyse medium and long-run performance, caution should be taken as they can often disguise volatility. Inspection of each year's index value over time reveals volatility.

Key Findings

Four

Emerging Markets: How Logistics Executives See Them

More than 800 supply chain and logistics executives worldwide shared their views on the 2017 global economic outlook, prospects for emerging markets, key growth drivers and trends affecting emerging markets countries.

- A significant minority of logistics executives (42.8%) think the IMF forecast for 4.6% emerging markets growth is too optimistic. That compares with 35.9% who thought the IMF's 4.7% forecast for 2016 was too rosy a year ago. Nearly 69% say they are concerned or "very concerned" that the UK's Brexit vote and the failure of regional and global trade initiatives such as the Trans-Pacific Partnership signal a threat to free trade.

- A year ago, supply chain executives were preoccupied with low oil prices, which were identified by 27.1% as the factor likely to have the most significant impact on global economic and trade growth. In the 2017 Index, there is no dominant factor. Instead, opinion is split among a variety potential drivers: 10.5% cite the direction of China's economy as the leading driver; 9.4% pick oil prices; 5.7% say the direction of the US economy will have the greatest impact on global growth. Nearly 57% say they expect oil prices to increase at least somewhat.

- For the second consecutive year, industry executives picked India as the country with the most potential to grow as a logistics market. They also indicated India was the leading emerging markets destination for investment by their companies over the next five years. That upbeat sentiment was paralleled by India's improving performance in the data-driven portion of the Index. **India** climbed to No. 2 in the overall rankings behind only China. More surprisingly, it leapfrogged China to top the Market Size & Growth Attractiveness portion of the Index, a shock, given the fact that China's annual GDP is roughly five times that of India's.

- The global logistics industry clearly is fascinated by **Iran** and the implications of its emergence from years of international isolation. Supply chain executives ranked Iran 9th among countries with the most potential to grow as logistics markets, up from 15th a year ago. Among other countries selected by survey respondents, only **Kenya** (up 3 spots to No. 17) and **Kazakhstan** (up 2 places to No. 20) rose more than one spot. **South Africa**, hobbled by political and economic difficulties, fell three spots to No. 12. **Qatar**, which is in the midst of a drive to lessen its reliance on energy, also dropped three spots to No. 19. **Egypt** slipped out of the top 20 in the survey.

- Economic growth and foreign investment levels continue to be the overriding factors in investment decisions by global logistics companies, but executives are giving closer scrutiny to demographic characteristics. Survey respondents cited cheap labour (No. 3) and population growth (No. 5) among other leading drivers of the importance of individual emerging markets. Corruption and poor infrastructure are the factors that most inhibit growth, while a range of efficiency-sapping bureaucratic impediments are also having a significant effect.

- Supply chain executives consistently view economic shocks as the No. 1 threat to growth in Asia Pacific and as one of the top threats in other regions. They identified corruption as the leading threat in Latin America and terrorism in the Middle East & North Africa.

- Syria, Libya and Iraq – all in the grip of extremist violence and war – were seen by industry executives as the three countries with the least potential as logistics markets. Other countries confronting extremism also ranked among those with least potential: Bangladesh (5), Egypt (7), Algeria (8). Ethiopia, which is in the midst of a crackdown following months of anti-government protests, was No. 4. Survey respondents ranked Iran as No. 6 among countries with the least potential – reflecting a deep split among logistics executives, who also picked it as one of the countries with the most logistics potential.

- Slowing growth in China has hurt the transport and logistics industry, according to 76% of supply chain executives in the survey. Still, few see this as a reason to alter their plans for the world's largest emerging market: nearly 66% say their businesses will carry on with plans in China despite the slowing economy. (Roughly 22% say they will moderate entry or expansion plans in China as a result of its slowdown.) China ranked No. 2, after only India, as a future investment destination and as the most promising emerging market.

- In Brazil, consumed with a political crisis that led to the impeachment of President Dilma Rousseff, poor governance is the overwhelming pick as the biggest impediment to growth. It was the top selection of 46% of survey respondents, followed by corruption, the pick of 21% of those who responded. In the data portion of the Index, Brazil was remarkably resilient: it remained the No. 7 emerging market and was seen by industry executives as the market with the third-ranking destination for investment and for most investment potential.

Markets on the Move

- Stagnation in global trade growth and turbulence in emerging markets are reflected in the 2017 Index. Twenty-four of the 50 countries experienced a year-over-year erosion in their overall scores, which could be considered a broad gauge of their competitiveness that includes growth, market attractiveness, infrastructure and transport connections, and business climate. All of 2016's emerging markets remain in the top 10, but scores for seven of the 10 countries deteriorated: China (1), Malaysia (4), Saudi Arabia (5), Indonesia (6), Brazil (7), Mexico (8), Russia (10).

- China remained atop the Index rankings by a large margin. Among countries in the top 10, the markets changing places from the prior year were India (up to No. 2 from third), UAE (down to No. 3 from second), Turkey (up to No. 9 from 10th) and Russia (down to No. 10 from ninth).

- Iran was the most improved emerging logistics market, climbing eight spots to 18th overall as it reintegrates with the global economy and becomes part of logistics providers' strategies. Iran is one of five countries added to the Index in 2017. The others – Ghana (39), Myanmar (48), Angola (49) and Mozambique (50) – struggled to perform.

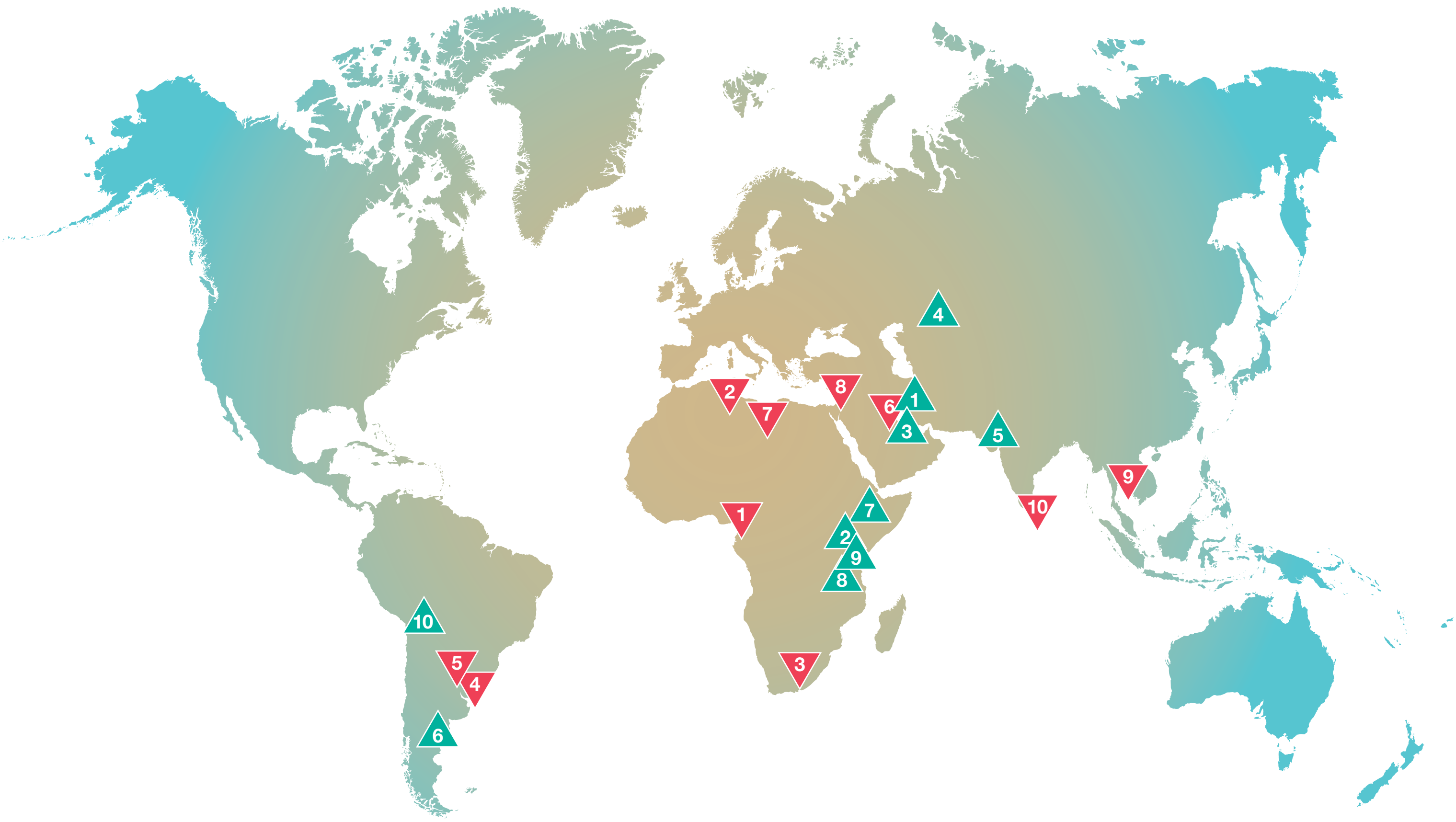
- **Nigeria** suffered the largest loss in terms of both score (-0.43) and ranking positions (down nine) and ended in 24th overall. Slashed economic forecasts, low oil prices, recession and instability all contributed to this. **South Africa** was also among the countries with the sharpest drops: it fell four positions to No. 21, hurt by decreasing FDI across manufacturing and mining, stalling infrastructure development, and social issues that weighed down growth. As a result, no sub-Saharan country ranks among the top 20 in the Index, although five other markets from the region – Ethiopia (37th), Tanzania (38th), Ghana (39th), Uganda (41st) and Kenya (43rd) – saw their ranking scores improve.

- As noted, **India** moved ahead of **China** to top the Market Size & Growth Attractiveness sub-Index in 2017, thanks in large part to its superior economic growth forecasts over the medium-term. Other countries making moves in the category of Market Size & Growth Attractiveness: the **Philippines** rose four spots to 12th; **Egypt** climbed four positions to 10th. **Argentina** was up six to 22nd, and **Iran** rose five to 16th.

- When it comes to the best business climate – or Market Compatibility – the Middle East & North Africa is the place to look. Seven of the top 10 ranked markets for Compatibility now come from the Middle East & North Africa region, up from five in 2016. For the third consecutive year, the UAE boasts the best business conditions among emerging markets. Among its attractions: a network of free trade zones, no corporation tax, the offer of full ownership and unlimited repatriation of profits – conditions that set the benchmark for emerging markets. Qatar (2nd) has more or less halved the gap between itself and the UAE in terms of score, as trade barriers and investment there continue to be eroded.

- Transport infrastructure and frequency of ocean and air connections drive the competitiveness of emerging markets. In that area – called Market Connectedness – **UAE**, **Malaysia**, **China** and **Chile** remained at the top. Russia regressed from 10th to 13th because the overall quality of its infrastructure is judged to have worsened, as has the burden of its customs procedures. Replacing **Russia** in the top 10 was **Kazakhstan**, which jumped up to 9th on the strength of infrastructure and customs improvements.

Markets on the Move



UP

BIGGEST MOVERS

POS	COUNTRY	PLACES
1	Iran	+8
2	Uganda	+6
3	Bahrain	+5
4	Kazakhstan	+4
5	Pakistan	+3
6	Argentina	+3
7	Ethiopia	+3
8	Tanzania	+3
9	Kenya	+2
10	Bolivia	+2

DOWN

BIGGEST MOVERS

POS	COUNTRY	PLACES
1	Nigeria	-9
2	Tunisia	-5
3	South Africa	-4
4	Uruguay	-4
5	Paraguay	-4
6	Kuwait	-3
7	Libya	-3
8	Lebanon	-3
9	Thailand	-2
10	Sri Lanka	-2

Source: Transport Intelligence

Trade Lanes

Summary

Trade volumes are struggling in emerging markets. If 2015 was a year of low growth or no growth, then 2016 is set to be worse still, the worst since the global economic crisis of 2008. Import and export volume growth figures have turned negative.

The future looks no brighter. Last year, annual forecasted trade volume growth rates stretching to 2020 for emerging markets were expected to return to rates experienced from 2012 to 2014 – in the region of 5%. In the latest set of IMF forecasts (October 2016), the export and import CAGRs for 2015 to 2020 for emerging markets have edged down to more like 4%. And the forecasts don't consider the implications of the surprise outcome of the US elections.

But if you look hard enough, bright spots can be found. With international sanctions easing, Iran's trade prospects are now far stronger. Argentina has enjoyed a bounce thanks to the new government's more orthodox economic policies. Vietnam has seemingly moved from an already strong position to an even better one.

With an increasingly difficult external environment though, logistics providers will have to work harder to make the most of the opportunities that trade in emerging markets presents.

Air Freight to Emerging Markets

The busiest emerging markets air freight lanes originating in the EU or US tend to connect to larger markets in the Index: China, UAE, India, Mexico, Turkey, Saudi Arabia, Brazil and South Africa. Volume growth along these lanes in 2016 appears to be subdued. Only EU-India is likely to show double-digit growth (forecast 10.5%), with the next best being EU-Mexico (7.6%). For all other lanes in the top 10, growth is expected to be in the low single digits or negative. Brazil looks to have suffered badly (EU-Brazil down 6.7%, US-Brazil down 11.6%).

The eight fastest-growing lanes involve EU origins. The top five are EU-Vietnam (up 37.2%), EU-Pakistan (up 31.0%), EU-Colombia (up 18.7%), EU-Oman (up 14.4%) and EU-India (up 10.5%).

EU air shipments to emerging markets are on pace to decrease by 1.8% for 2016, while US air shipments to those same markets look set to shrink by 6.3%.

Air Freight from Emerging Markets

Flowing in the other direction – from emerging markets to the EU and US – the picture is mixed. Looking at the two busiest lanes, exports to the EU in 2016 are being propped up by China-EU growth of 4.8%; and exports to the US are being hamstrung by a 10.5% decline in China-US volumes.

Among the remaining top 10 busiest lanes, Mexico-EU (up 22.3%) and Bangladesh-EU (up 20.7%) are the top performers, and in fact are the fastest growing lanes of all. Cambodia-EU (up 17.8%), Pakistan-EU (up 15.8%), Brazil-US (up 11.0%), Tanzania-EU (up 10.8%) and Ecuador-EU (up 10.1%) also showed double-digit growth.

Forecasts indicate that air freight shipments from the Index's 50 emerging markets countries to the EU will increase 3.3%, but shipments to the US will decline 6.2%.

Ocean Freight to Emerging Markets

In ocean freight, the largest lane connects US origins with destinations in China. Trade along that lane decreased by 7.1%. EU-China ocean freight is down by 4.8%.

Elsewhere, EU-Morocco (up 25.9%) is the best performer among the top 10 lanes, followed by US-Mexico (up 12.1%), EU-Saudi Arabia (up 12.1%) and US-Brazil (11.7%).

Among the 25 fastest-growing lanes, growth is overwhelmingly driven by higher volumes of cereal crops, with a few notable exceptions. Among EU/US origin ocean freight lanes, it is almost always bulk goods that drive volume growth swings.

Overall, EU-origin trade lanes are set for growth of 0.7% in 2016, while the corresponding figure for US lanes is 3.0%.

Ocean Freight from Emerging Markets

A salient feature of emerging markets sea freight exports is that they are much more diversified compared to imports, which are overwhelmingly comprised of agricultural goods.

This is best exemplified by the largest exporter of all, China, whose most important export groups include a vast array of manufactured goods. For 2016, China-US ocean freight volume is expected to fall by 3.0%, but China-EU will see growth of 3.3%.

The rest of the top 10 are a mixed bag: Argentina-EU (up 13.1%), South Africa-EU (up 6.9%) and Turkey-EU (up 6.4%) are some strong performers, but Mexico-US (-13.1%), Russia-EU (-7.6%) and Brazil-US (-6.8%) volumes are forecast to contract.

The list of trade lanes that have grown robustly (more than 5%) both in 2016 and over the last decade or so includes Vietnam-US, which stands out as a leading lane, followed by Uruguay-EU, Qatar-US, Turkey-US, UAE-US, Algeria-EU, Nigeria-EU and Bangladesh-EU.

Overall, EU ocean freight from emerging markets origins is predicted to grow 1.8% in 2016, but the US is projecting a decline of 4.5%.

The 2017 Agility Emerging Markets Logistics Index

Five

Overview and Outlook

Entering 2017, the global economy looks vulnerable to a range of downside risks. China's slowing economy, falling oil prices, weaker investment and volatile currencies have all had an unsettling effect on developed and emerging markets alike, as well as the private sector. In this climate, there is uncertainty about emerging markets' ability to provide high levels of return on investment. As a result, the status of emerging markets in the minds of investors has changed, and the days of unbounded optimism about these markets has been tempered. In recent years, investors have looked to emerging markets to provide the greatest returns. It is unclear if that will remain the case.

As 2015 drew to a close, and with the yuan already devalued, there was concern that China was not making progress quickly enough in its economic transition. That fear led to turbulence in financial markets across the world. China's domestic market is highly indebted, and it is struggling to deal with vast oversupply and overcapacity across key manufacturing and real estate sectors. As the world's second-largest economy, other countries find they are now intrinsically linked to China's fortunes. China's slowing economy and its reorientation towards a services-led economy are significant for a number of emerging markets, many of which rose on the back of Chinese demand for commodities and raw materials to supply its vast construction and manufacturing expansion. As Chinese demand for such imports fell, a now familiar chain of events began to unfold. Lower demand meant the price of commodities declined alongside export volumes and revenues, putting jobs and economic growth in exporting nations at risk. More widely, the uncertainty dented confidence, and led to volatility in currency markets. This compounded the challenges facing a number of emerging markets – not only was there less momentum in their economies, the debt they took on to fund growth became more expensive to service as their currencies became increasing less valuable against the US dollar. The intervention in March 2016 of the Beijing administration and the National Development and Reform Commission with a $721.8bn infrastructure stimulus package to fund 303 projects across rail, road, waterways, airports and metro systems in China was welcome relief for those supplying the materials. Also welcome has been the lack of further interest rate hikes in the US, which allowed emerging markets to capture the value of their more stable currencies. That such developments which primarily appear related to domestic challenges in China and the US have held so much sway over the fortunes of emerging markets in recent years goes some way to illustrating how integrated these markets, and trade with and between them, have become with the global economy over the last decade.

This appearance of stability led to a calmer, more favourable backdrop for emerging markets in the second half of 2016. Not all benefited from it, however, and downward pressures remain. For many markets, adjusting will not be simple and will likely “be difficult and protracted. In some cases, it calls for a change in their growth model,” according to Christine Lagarde, head of the IMF. Such a process is, for example, already underway in the oil exporting emerging markets, which have had to make economic adjustments in order to cope with low energy prices. Subsidies on energy and utilities, long a feature of many GCC countries, have been eliminated or reduced, and the introduction of a sales tax looks likely in several countries with the UAE seemingly first in line.

Some emerging markets continue to post strong growth despite headwinds, while others are sinking into recession, self-inflicted or otherwise. One success story is India, where economic growth topped 7% in each of the last two years, and where a pro-business government has, at last, passed reforms to unlock value, increase efficiency, ease foreign investment rules and boost manufacturing capacity. Another fabled emerging market, Brazil, presents a textbook example of what can go wrong. Woeful economic mismanagement fed Brazil’s budget deficits, caused inflation and unemployment to rise to unsustainable levels, and allowed corruption to sap the capacity of government to address the problems. The result: Brazil’s worst economic downturn since the Great Depression. As a group, though, emerging markets are growing more slowly in recent years. Having averaged growth of 6.6% annually between 2000 and 2007, emerging markets looked to have bounced back when 2010 saw economic expansion hit 7.5%. Since that time, however, growth slowed in each year to 2015, when a 5.0% rise in output was recorded. The IMF expects growth to have reached just 4.2% in 2016.

Alongside the challenges emerging markets have faced in recent years comes the added pressure of a wider slowdown in global trade. WTO forecasts show that, for the first time in 15 years, trade growth is likely to be slower than overall economic growth. Elsewhere, figures from the IMF indicate that 2016 will be the fifth consecutive year with global economic growth below its long-term average of 3.7%. The IMF predicts that growth will lag the average again in 2017. Meanwhile, as 2016 progressed, a dimension has been added to slowing trade growth. Rising anti-globalisation sentiment, from opposition to trade agreements like TPP and TTIP, to Brexit and the protectionist tones of the US presidential election, appears motivated by a drive to undo much of the integration that has spurred trade growth since the mid-1990s. But while trade sceptics may have found a new form of expression and high profile leaders in 2016, anti-trade sentiment is not limited to these few headline-grabbing stories. Nor is it a recent phenomenon. Analysis from Quartz shows that of the 1,855 trade measures G20 governments have introduced since 2009, some 74.5% have been protectionist in nature.

This anti-globalisation sentiment comes at a time of slow growth for developed and emerging markets alike. When economic growth is strong, trade tends to rise and to fuel further economic growth. But as consumption has fallen and investment has slowed, sluggish growth has lessened the job and economic prospects of middle classes in both developed and emerging markets. Despite two decades of unprecedented prosperity based on free trade, the distribution of gains has been uneven and unequal. So at the start of 2017, the future of global trade is uncertain. The WTO expects global trade to grow by 1.7% in 2016, down from earlier forecasts of 2.8%. The WTO says 2017 trade growth could be anywhere between 1.8% and 3.1%, highlighting its uncertainty. “The dramatic slowing of trade growth is serious and should serve as a wake-up call,” said Roberto Azevêdo, Director-General of the WTO.

“It is particularly concerning in the context of growing anti-globalisation sentiment. We need to make sure that this does not translate into misguided policies that could make the situation much worse.”

In summary, 2016 was a difficult year. It came with a moderation in expectations for the future and further indications that the emerging markets gold rush was coming to an end. Thankfully, the steps taken by key parties including the Chinese and US administrations, as well as governments in many emerging markets managing transitions and economic diversification projects of their own, have helped take the heat out of a challenging year. Whether enough has been done, and whether solutions have moved quickly enough, remains to be seen. Emerging markets retain much of the capacity for growth and the dynamism with which to create and capture value. In the year ahead, though, a potent mix of challenges, downward pressures and risks threatens to reveal which emerging markets have foundations built on sand.

Asia Pacific

Asia Pacific markets’ aggregate score is the highest across the regions covered by the Index. In 2017, eight of the top 20 ranked emerging markets are from the Asia Pacific region, up from seven in 2016. It should be noted, however, that only two markets – India and Pakistan – rose in the ranking, with Vietnam the only other Asia Pacific market to join the two in increasing its score year-on-year.

The Asia Pacific region will remain the engine of global economic growth with an expected economic expansion of 5.3%, according to the IMF. There are a number of challenges in the region which will need to be addressed and either mitigated or overcome if the region is to fulfil its potential, however. Sluggish global growth is reducing demand for its exports as volume growth to major global markets and regional partners, such as Japan, slows. Weak investment growth across the region has followed the volatility in financial and currency markets with commodity-exporting markets most affected. High levels of corporate debt are also a cause for concern as the prospect of tightening financial conditions, particularly in the US, looms.

There also are a number of positives in the region. Despite the generally lower export volumes, a number of manufacturing sectors have shown resilience, while others have seen volumes grow. This includes electronics, an area with significant potential for countries such as Vietnam and Indonesia, markets with strong potential to move up the value chain. Credit growth remains healthy, suggesting confidence remains high for those able to identify opportunities, while domestic demand and consumer confidence are broadly healthy in markets across the region including India, China, Thailand and the Philippines.

Less predictable for Asia Pacific, though, is the effect that a rising tide of anti-globalisation sentiment will have in key destination markets, most notably the US. The TPP trade deal looks dead in the US, and a more protectionist US could mean reduced access for exporting nations. A potential alternative route for Asia Pacific emerging markets could be to pursue greater regional cooperation and integration. The ASEAN Single Window can be improved to better facilitate customs and export procedures, while the Regional Comprehensive Economic Partnership – a proposed free trade agreement between the ASEAN nations, Australia, China, India, Japan, South Korea and New Zealand – could take on new impetus as an alternative to TPP.

Latin America

Brazil and Mexico, Latin America’s largest economies and top Index performers, maintained their positions in the top 10 of the 2017 Index despite difficult years. Both recorded lower scores year-on-year, making 2017 the second consecutive year that no Latin America market cracked the top 5. The region, which continues to underperform, got a boost from Argentina and Bolivia, both of which saw their ranking scores rise. Still, Latin America was the only region to record a decline in average score in the 2017 Index.

Expectations of a 0.5% contraction in economic activity across the region in 2016 highlight the scale of the challenge facing Latin America. Such a decline would mark the first time since 1982-1983 that two consecutive years of negative growth will have been recorded. Within the region-wide forecast is a high degree of variation. Brazil, for example, is in a deep recession, due to significant corruption and economic mismanagement over much of the last decade. In Venezuela, the collapse of oil prices has highlighted a lack of diversity in the economy and the absence of alternative means of value creation. As such, rapid declines in GDP and high levels of inflation looks set to continue in Venezuela for the foreseeable future. Argentina made gains in this years' Index and, while the country still faces a long and potentially painful journey, early indications of progress under the Macri administration are promising. Elsewhere, Chile and Peru look set to continue growth, and the IMF expects Peru's economy to expand by 3.75% in 2016, partially as a result of ongoing investment in the mining sector.

Latin America overall remains vulnerable, though. It is heavily exposed to China. The world's second-largest economy is destination for 15% to 25% of all exports from Brazil, Chile, Peru, Uruguay and Venezuela according to IMF figures. Latin America's markets are also vulnerable to further volatility or declines in commodity prices. Mexico, too, could have new challenges to overcome should manufacturers have to confront new barriers to the US market. Latin America also must address problems of its own making if it is to progress over the medium-term. Brazil's current situation can broadly be traced back to the failure of both Presidents Lula and Rousseff to reform outdated institutions. Brazil has counterproductive labour, tax and business regulation and has shown a wider failure to improve productivity in the economy.

Middle East & North Africa

The Middle East & North Africa continues to be a strong performer. Two markets – UAE and Saudi Arabia – make the top five, despite having significantly smaller economies than other elite markets. Such solid performance, though, does not remove the need for further progress on economic diversification. Seven of the region's 15 Index markets improved their overall scores. Among them was Iran, which leaped more spots than any other country in the 2017 Index. Many of the region's less stable markets saw scores fall year-on-year, although Egypt continued to perform well , rising on the back of post-Arab Spring reforms and stability, gaining two spots to rank 20th.

Perhaps the most significant developments in the region focus on how it will adjust to the "new normal" of low oil prices. Even with the possibility that a new OPEC production agreement will take hold in 2017, low oil prices have had a major effect across the region. Governments have been forced to diversify their economies and introduce new methods of revenue collection. In many ways, this is changing the role of the state in the Middle East's oil exporting nations from one which supports the population through various public spending initiatives and subsidies to one that emphasises the creation of private sector jobs as well as encouraging competition and choice for consumers. The transition will not be painless. It will require significant investment at a time when public resources are stretched and budget deficits widening. According to World Bank data, the region's oil exporters have seen cash reserves swing from a surplus of $128bn in 2013 to a deficit of $264bn in 2016, while those in the GCC, saw oil revenues decline by $157bn 2015, with another $100bn decline expected in 2016. Saudi Arabia appears most challenged with reserves down $178bn since mid-2014. While losses could narrow, creating new productive capacity is at least a medium-term project. The process is also painful for citizens who have to adjust to new taxation alongside the loss of subsidies in Saudi Arabia, Kuwait, Bahrain, Oman, Qatar and the UAE, all of which plan to introduce a sales tax to offset dwindling energy revenues.

Increased competition within the region is also likely to become a feature of the economic diversification process. As the nations seek new sources of investment and work to nurture the growth and expansion of non-oil industries, they will have to remain vigilant to ensure they offer the combination of an open and efficient business environment and access to a skilled workforce. Following political developments in the region, too, Iran will add to the competitive forces in the years ahead.

Iran's reintegration with the West is likely to be halting but could change both market and trading patterns as Iran becomes an attractive option for businesses from the US and Europe. Iran's leap up the Index rankings this year – eight spots to 18th overall – reflects not only the potential of its large economy and relatively wealthy population, but also the rapidity with which it may capitalise on its new found opportunities. World Bank estimates suggest that sanctions reduced Iranian exports by a total of $17bn between 2012 and 2014, equal to approximately 4.5% of GDP.

Sub-Saharan Africa

With the declining prospects and performance of South Africa and Nigeria, sub-Saharan Africa has no markets inside the 2017 Index's top 20. Perhaps illustrating the diverse economic and logistics performance and potential across the region, however, was the change in scores of the region's markets collectively. While Angola and Mozambique – 49th and 50th overall, respectively – both recorded lower scores year-on-year in 2017, five other African markets – Ethiopia, Tanzania, Ghana, Uganda and Kenya – all saw scores rise. Indeed, Uganda, recorded the third strongest year-on-year performance across the entire 2017 Index based on score development.

A number of markets experienced significant challenges in 2016. South Africa, for example, slipped out of the top 20 as social tensions, corruption and falling investment ground down economic growth. Nigeria dropped nine spots – the most of any country in the 2017 Index to 24th. Nigeria is suffering from recession, slashed growth prospects, lower oil prices and a depreciating currency. Even seemingly positive stories are weighed down by recent events. Ethiopia rose three positions to 37th on the back of economic growth that averaged 10.8% from 2006 to 2015, according to IMF figures. But Ethiopia has been beset by anti-government protests and demonstrations that included attacks on businesses as well as strikes and boycotts.

Despite problems, Africa's growing prosperity is also evident. Consumers and businesses are being empowered by new technology and mobile banking, which is driving consumption. Spending by African consumers and businesses today totals $4 trillion. Household consumption is expected to grow at an average 3.8% a year to reach $2.1 trillion in 2025, fuelled both by population growth and rising incomes, according to McKinsey. Business environments are improving and regional integration efforts are creating new opportunities, particularly in landlocked countries. Moreover, population growth in sub-Saharan Africa will expand the workforce to eclipse those of both China and India over the next few decades. Significantly, job growth in the region is outpacing population growth. Sub-Saharan Africa's population is also urbanising at a rapid pace. To take advantage of this, widespread infrastructure development must occur because growing cities and rapid urbanisation have led to sprawling slums and left groups of the population trapped in low-income jobs.

All too often in recent years, headline performance across the region has determined perceptions of individual performance. To some extent, real GDP figures showing growth at 3.3% per year between 2010 and 2015, down from the 5.4% average over the 2000-2010 period, partially explain this, as do events in a number of the region's individual countries. The diverging performance of sub-Saharan Africa's emerging markets in the 2017 Index show, however, that treating all of its diverse markets as one means missing out on many markets that display significant potential.

The Top Ten

Despite a range of turbulent forces within the global economy, the top 10 ranking positions in the 2017 Agility Emerging Markets Logistics Index displayed a surprising level of continuity year-on-year. Six markets retained their positions and there was no change in the list that made up the elite grouping. Within and across markets, however, a far greater degree of change is at work than the rankings suggest.

At the top of the 2017 Index, China retains the top spot it has occupied since being introduced to the Index in 2011. China's transition to a consumption-based economy has been rocky both internally and externally. Its reduced demand for commodities has had a widespread impact across the globe, and its slowing pace of economic expansion has led to uncertainty over prospects for the medium- and long-term. This has primarily been driven by weakness in the very sectors that drove its rapid growth – most prominently construction and manufacturing for export. Chinese authorities revalued the yuan, a move which contributed significantly to capital outflows of $900bn in 2015, and sparked a turbulent few months until further intervention in February 2016. A stimulus package at that time brought a sense of calm to the market, although the package leaned heavily on encouraging and incentivising activity in manufacturing and real estate, sectors already oversupplied. Consumption and services have performed well since, though. Growth has outpaced investment. Other logistics service providers, particularly those specialising in last-mile delivery, are likely to follow ZTO Express' move to raise funds via an IPO in order to boost scale to serve China's booming e-commerce sector. As it moves towards domestic demand as the primary driver of economic development, China has a number of factors in its favour. Prime amongst these are urbanisation and robust labour markets in its cities with rapidly growing disposable incomes. Unwinding oversupply and overcapacity in several manufacturing sectors and in the real estate market remains an important aspect of China's transition. Overall, while China seems to have weathered the storm, if it cannot move quickly enough, it may have merely pushed the inflection point further out.

Agility
A New Logistics Leader

Agility's Take / China

"The economic slowdown in China is real and we are seeing it in our China business. That said, China is such a huge market that there are still opportunities for everyone, big and small. Its fragmentation is part of its enduring resilience. We feel there's room to grow market share, even in the face of an overall slowdown."

"The fact that manufacturing is on the move from China to other parts of Asia is well-established. The Indian subcontinent and Vietnam are taking market share when it comes to retail and high-tech manufacturing. They continue moving the value chain in ways that have ongoing implications for China."

"It's both about price and government policy: the average factory worker in Vietnam earns less than a quarter of what a factory worker in China gets paid per day, according to The Economist. At the same time, both India and Vietnam have taken important steps to ease investment and tax rules and improve their infrastructure."

"People don't appreciate what e-commerce is doing to change China. McKinsey says China's online retail market is the biggest in the world – 80% bigger than that of the United States. In 2015, it accounted for $630 billion, which was about 13.5% of all retail spending in China. And the market is growing every day."

"E-commerce in China is driving inbound freight volumes in a country that has been an export-first economy for three-plus decades. Cross-border e-commerce accounts for 6% of China's total consumer e-commerce, a figure that is growing at 50% or so annually. Chinese consumers have stepped up their purchase of imported goods."

"Chinese e-commerce entrepreneurs are looking to tap into the expertise, systems, technologies, and warehousing and distribution networks of established logistics players as they scale up their operations. Not the established e-commerce giants, but the next generation of e-commerce companies for whom logistics has the potential to either be an Achilles' heel or a major driver of growth and profitability. They want to work with logistics companies that already have a strong set up. They are also willing to learn-as-they-go in partnership with their logistics providers, because it's an evolving space for everyone."

India climbed to 2nd in 2017, its highest ranking since 2013. It has reached a reforms stage in its transition with change needed at both state and central levels, according to Niti Aayog, a policy think-tank established by Prime Minister Narendra Modi. The Goods & Services Tax is the headline reform so far, and one that should radically improve both the productivity and integration of the country's economy by removing physical and trade barriers between states. Alongside the GST are reforms that focus on easing access to finance and lending for Indian businesses and a relaxation of rules around FDI, while rising wages and pensions in the public sector have increased spending power. The sustainability of investments is under scrutiny, however, as the recent growth seen in India has been largely funded by the public sector, with private sector investment described as "listless" by the Asian Development Bank. Outside of reforms, India's ability to raise the spending power of its vast population and to develop the skills and productivity of its workforce will be a determinant of how successful the transition is. India is rapidly urbanising, with significant potential for the country. Analysis undertaken by McKinsey shows that historically, Indian cities have seen GDP per capita and productivity rise markedly when urbanisation reaches 35%. By 2030, the urbanisation rate across the whole of India is expected to reach 35%, creating both huge opportunities and turning some of India's states into economic entities with the size and wealth of some middle-income countries. One sector already seeing the benefits of rising wages and increased urbanisation is e-commerce, where domestic online retailers Flipkart and Snapdeal are competing for market share with global giants Amazon and Alibaba. Seeking to be a part of this growth, DHL, through subsidiary Blue Dart Express, has invested €70m to strengthen its network in the country that will expand air hubs in Mumbai and New Delhi. Downside risks remain, however. Skills are in short supply, and in 2015, a staggering 90% of India's workforce were employed in the informal sector. Perhaps most significantly, while economic growth of 8% is the envy of many, India requires double-digit growth to create enough jobs to support the millions joining the workforce each year.

Agility
A New Logistics Leader

Agility's Take / India

"India is one of the world's fastest growing economies, but its decision to take high-value currency notes out of circulation is already causing pain and likely will cause more through 2017. It's a cash-based consumer economy, and people are going to spend less until they understand what's going on and gain some level of comfort."

"The impact of demonetization will have to play out. We're seeing some of our logistics customers shutting down production for days at a time and calling it 'annual maintenance.' The reality is that they're trying to reduce inventory. We're seeing trucks stranded and drivers who can't afford to buy tea or food while they're idle."

"Pharma is one of the brightest spots in the Indian economy. Western life sciences companies are increasingly buying from India, and high-quality Indian generic makers continue to grow exports. India's pharma exports are expected to grow more than 60% in 2017."

"Goods & Services Tax (GST) reform is a potential game-changer. It's ambitious and complex, but its impact could be enormous. So many industries in India are tax-optimized rather than supply chain optimized or strategically structured and operated. GST will allow companies operating in different states to consolidate, expand and rationalize as dictated by demand and opportunity, rather than as part of a complex strategy to minimize taxes."

"Companies will have to re-gear themselves to adjust to GST. Those with flexible, strong systems have an inherent advantage. One example: Today, if a logistics company is slow to invoice, customers don't mind because it gives them more time to pay. After GST, quick billing will be essential to customers so they can claim their GST input credits."

Also characterised by transition are the top 10's most prominent oil exporters. Both the UAE, which slips to 3rd this year, and neighbouring Saudi Arabia, which retained its 5th overall ranking, are undertaking a process of economic diversification, private sector job creation, and reforms designed to build a business environment in which corporations, domestic or international, can succeed. The UAE's open economy, network of free trade zones, logistics infrastructure and trade surplus have helped give it a strong starting position. The oil sector only accounts for around 25% of output. Other macroeconomic indicators are healthy, too. Iran's re-emergence will likely benefit the UAE – and Dubai in particular – if the Emirates maintain their role as a transit point for goods moving in and out of Iran. It should be noted that non-oil sector growth has slowed recently with some of the declines a result of measures introduced to widen the state's revenue base, such as the deregulation of fuel prices. The planned introduction of a sales tax could see further dampening of domestic demand. Similar diversification projects are underway in Saudi Arabia, although the pressure to move quickly is more acute. The Saudi state has used oil revenues to support economic growth with vast infrastructure projects and social spending programmes. Indeed, its spending commitments are so vast that analysts suggest oil prices of $100 per barrel are required in order to break even. With prices likely to remain below this point for some time to come, the Saudi state already faces challenges with a budget deficit around 20% of GDP and central bank reserves dwindling by some $70bn annually. Bids to boost the non-oil sector of the economy appear to be struggling – growth was just 0.07% year-on-year in the second quarter of 2016, down from 3.5% for the same quarter a year earlier. Moreover, this is coinciding with demographic challenges – Saudi Arabia's labour participation rate is 41%, official statistics put unemployment of those aged 15-24 at 30%, while 37% of all Saudis are 14-years-old or younger. This means, against a weakening backdrop, Saudi Arabia must find the economic momentum to create at least 3 million new jobs by 2020, while diversifying its economy and widening its revenue base.

Agility
A New Logistics Leader

Agility's Take / GCC Countries

"Low oil prices slowed regional growth and forced Gulf countries to adjust their fiscal strategies and focus on economic diversification. The slump in energy prices was a catalyst to further explore alternative revenue sources. Governments across the region are at various stages in this process."

"The UAE began to move away from reliance on energy some time ago. Its economy is affected by the ebb in global trade flows and a drop in the construction and real estate market, but its diversification policies will stand it in good stead in the current climate."

"Saudi Arabia's Vision 2030 is a hugely ambitious plan to remake the entire economy. It's a roadmap for the kingdom's transformation that bears watching in the next few years."

"Qatar's energy exposure is mainly on the natural gas side, so the decline in oil prices has had a limited impact. Qatar has a diversification strategy of its own. Having won the 2022 FIFA World Cup, it is focused on hosting showcase international sporting events as it seeks to grow its tourism industry.

"Qatar's World Cup plans involve $70bn worth of projects. Qatar's goal is to host 50 sporting events by 2020. It's a strategy based on a belief that these events will have a multiplier effect on the wider economy."

"In Kuwait, we see a steady rise in government spending and expect a surge in projects over the coming two years as Kuwait starts to implement a number of infrastructure projects."

"There has been a collective acknowledgement in recent years that more meaningful economic measures are required if these countries are to be competitive and sustain growth. You've seen that with the adoption of a GCC-wide Value Added Tax."

Elsewhere in the top 10, a number of markets displayed a healthy degree of continuity, if not necessarily the strength of momentum. Malaysia, which retained its 4th place ranking, is an example of a market with an open economy that has positioned itself as a highly attractive export location. At 148% from 2010 to 2014, its trade-to-GDP ratio dwarfs East Asia's average of 58%, and 40% of all jobs are supported by the export sector, according to World Bank data. It is on this base, alongside a diverse manufacturing sector, that Malaysia has set its ambitions of reaching high-income status by 2020. There will be challenges ahead. Externally, the potential disappearance of TPP will hurt a nation as invested in trade as Malaysia. Slow progress on further integration with its ASEAN partners and subdued demand in key export markets such as Europe and China also weigh down growth. Domestically, the 1MBD corruption scandal affecting Prime Minister Najib Razak continues to threaten the credibility of a country seeking investment and trading relationships with other nations and foreign investors. Growth has slowed to 4.4% in 2016, with a forecast for a slight increase to 4.8% in 2017, according to the IMF. Indonesia, meanwhile, remained in 6th position largely on the back on a domestic market that drives around 60% of economic activity. The slowdown in China's economy and weakened demand hurt Indonesia's exports and hit the wider economy as household spending fell. Medium-term reforms announced by President Widodo focus on easing bureaucracy and eliminating corruption in order to boost efficiency and strengthen the business environment, as well as an extensive infrastructure building programme. In the private sector, room exists to push Indonesia's manufacturing capability up the value chain. Exports currently are dominated by low-tech products and operations focused on assembly, leaving the country vulnerable to the location strategies of multinationals. The IMF forecasts growth of 5.3% in 2017, but falling demand will see volume growth subdued, but household incomes are expected to grow slowly.

Turkey is also home to a strong domestic market that contributes almost two-thirds of its GDP growth. With GDP per capita at around $10,000, it is an attractive market for both domestic and foreign retailers. Its move up to 9th in the 2017 Index is the result of long-term gains – since 2002. The proportion of Turkey's population living below the poverty line has fallen from around 30% to less than 2%, while social and economic indicators such as life expectancy, years of schooling, output and formal employment have all improved. In addition, the country showed resilience following the sharp 2008 downturn. Growth recovered, despite lower demand for exports. Turkey is still dependent on external funding, which leaves its private sector vulnerable to currency fluctuations, especially to a strengthening US dollar. Despite its large consumer sector, large-scale retail models have failed to take off, limiting logistics opportunities. An attempted coup and the resulting crackdown led to political stability in 2016. The European Parliament voted to impose a 'temporary freeze' on Turkey's accession to the EU as a result. Elsewhere, Mexico also appears at risk of losing momentum, despite remaining in 8th spot for a second year. The country has close links with North America's consumer and manufacturing sectors through NAFTA and the presence of multinationals across a range of high-value manufacturing sectors. It is also an oil exporter and has weathered the fall in oil prices well, partly because it has reduced its dependency on the sector, which accounted for 39% of total state revenues in 2012 but makes up only about 20% today. There are pressing challenges for Mexico. It relies heavily on trade with the US, Donald Trump's pre-election rhetoric about building physical and regulatory walls, introducing tariffs, and renegotiating, or even leaving, NAFTA, seem likely to strain relations and put trade ties in jeopardy. More than 80% of Mexico's goods exports by value in 2015 went to the US. No other country in the world comes close to that figure. The volatility of the Mexican peso in currency markets will also cause concern for a private sector that borrows extensively in dollars. Despite faring well during the wider recession of 2008-2009, its economy has averaged growth of only 2% per year since 2010. FDI has stagnated at around 2% of GDP, half the level of other Latin American markets including Colombia, Brazil and Peru.

The remaining emerging markets in the top 10 – Brazil and Russia – are characterised by significant levels of uncertainty, although both retain positions in the elite grouping thanks to vast, if shrinking, economies. Brazil retained its 7th position in 2017 despite a year of economic and political turmoil. Widespread corruption and economic mismanagement are to blame for Brazil's current state as an underperforming economy. There are positives to be found, however. The country retains a large and relatively diverse economy with the potential for new productive activities. While economic activity remains weak, signs of improvement are slowly becoming visible.

In the grocery market, modern supermarkets account for around half of all sales, requiring sophisticated logistics support, while in the wider retail sector, e-commerce and m-commerce (transactions conducted via mobile phones) are gaining traction with the market estimated at $14bn, according to the US Department of Commerce. Brazil's pharmaceutical industry saw 2015 sales of $28bn, a 36% rise over 2010 sales, highlighting a need for cold chain facilities in the country. Further growth is expected as taxes on such products fall. Agriculture also has room to grow, even though it already accounts for about 23% of GDP.

Agility
A New Logistics Leader

Agility's Take / Brazil

"The economic crisis of the past two years is the worst in Brazilian history. Brazilians are optimistic that they have seen the bottom and that the trajectory from here is an upward one. Interest rates are around 14%, inflation at 6.5%, so it is a difficult climate. The key is political stability."

"The impeachment of President Dilma Rousseff was a critical test for Brazil's institutions. They were able to weather the situation without major confrontations, without widespread unrest, without risk of civil war. That's a sign they are strong, especially in the context of Latin America."

"Economic forecasts suggest the Brazilian economy could grow slightly in 2017 and expand 2% in 2018. Inflation has come under control and interest rates are starting to come down. That would make Brazil attractive again for investors."

"Macro-economic factors are starting to trend in the right direction, in part because there are new mechanisms to control public spending, to modernise pension laws, to begin privatisation. The big unknown is whether there will be any political surprises, particularly as the giant anti-corruption campaign known as Operation Carwash unfolds. Prosecutors are pursuing big Brazilian companies that they believe have bribed as many as 200 members of the congress and other politicians."

"Operation Carwash could create more short-term instability, but be very good for the long term, creating a strong, much-needed corporate compliance mentality."

"In a stable climate, logistics investment could be very attractive. Brazil desperately needs infrastructure investment – road, rail, ocean, air, storage, distribution."

By comparison, Russia, which fell to 10th, appears to have weathered its economic woes for now. Faced with a combination of economic sanctions and the falling price of oil, Russia allowed the rouble to depreciate, a move that acted as a buffer against any immediate shocks. The weaker rouble did lower the purchasing power of ordinary Russians and increase the price of imports. Russians ultimately saw real wages fall for the first time under Putin. Russia has tried to increase its attractiveness to long-term investors to soften or reverse the effects of capital flight. It has taken a strategic approach to using its reserves to fill gaps in revenues, targeting specific amounts of bailouts and aid towards specific companies, institutions or government ministries. However, Russia's budgets have been based on the assumption that it can sell oil at $50 per barrel. With prices below that, as well as sanctions and recession, analysts expect Russia's options to become increasingly limited. More widely, the recession is threatening to undo many of the gains in living standards the average Russian has seen in the last two decades. The Economics Ministry has downgraded its growth forecasts through to 2019, while reporting in August 2016, that real incomes had dropped 8.3% year-on-year. Over the whole of 2015, average monthly wages in Russia fell 9.5%, to below $450, less than in China, Romania and Serbia. World Bank figures suggest that GDP fell from $2.03 trillion in 2013 to $1.33 trillion in 2015, a fall of 40%, highlighting both the loss of momentum in the economy as well as the falling value of the rouble.

Changes outside the Top 10

Iran

Iran's absolute score gain of 0.38 is substantial. Iran climbed more spots – eight positions to 18th – than any country in the 2017 Index.

Iran represents a new economic opportunity, as well as a new centre of gravity in regional issues, as it emerges from Western and international sanctions. A big reason for its improvement in the Index is upward revision of its GDP forecasts. The IMF's projections for the next five years or so have increased from an average of roughly 2% growth to over 4%.

While the country is taking steps to find a place in the global and regional economic landscape, creating sustainable growth on the domestic front may prove to be the more important pillar. Achieving this will require a policy mix that emphasises and incentivises job creation in the non-oil sector. Iran must encourage entrepreneurial activity, an increase in investment, and higher productivity to create jobs, raising living standards and spending power. Short-term gains can be made by opening up markets to new domestic and international players and removing barriers to competition and foreign investment, thereby furthering integration with the world economy.

Free trade zone projects such as Kish Island may be a quick way to boost international activity. Nineteen kilometres off the Iranian coast in the Gulf, it is gearing up to become one of Iran's newest international business hubs. It is already experiencing a footfall of a million visitors annually to its duty-free zones, positioning itself as a haven for foreign investors, free from the rules and regulations of the mainland.

Foreign LSPs seem to be increasingly casting their eye towards Iran, particularly European road freight operators. DHL Freight, Delamode and Gebruder Weiss have all announced the launch of new services between Europe and Iran in 2016.

Agility
A New Logistics Leader

Agility's Take / Iran

"Even after years of international sanctions and isolation, Iran has the second-largest economy in the Middle East. It's got an educated workforce and good infrastructure, although it needs investment. Foreign companies are extremely interested."

"The signs are positive for Iran, but we haven't seen the same optimism reflected in demand from our customers. Most are taking a more tempered, pragmatic approach to the market. Shell recently agreed to look at potential investments in three of Iran's largest oil and gas fields – a sign that the nuclear agreement is generating interest and building confidence. But at this stage, it's too early to judge the impact that easing of sanctions is having."

"Companies are very eager to visit, to look closely at the market and talk to the government and potential partners. Most are not ready to be operational there for now. Payments and banking remain a concern because there are still constraints that prevent Iran's full reintegration into the international banking system."

Argentina

Argentina moved up three spots to 28th in the Index. Its raw score rose 0.38, matching the gain posted by Iran.

Improvement was broad-based across all three facets of the Index, as GDP prospects bettered, FDI was higher year-on-year, trade barriers reduced and overall infrastructure is judged to have improved. As noted in last year's Index, the departure of President Kirchner and the election of the more orthodox Mauricio Macri was always likely to lead to an improvement.

FDI surged by 130% in 2015 although this was skewed by one transaction that led to abnormally low flows in 2014. Excluding this, growth was a more moderate 15%. Still, policy changes to attract further FDI are encouraging. Argentina has adopted a crude oil production and stimulus programme providing financial subsidies for oil production and exports. The tax regime has become more favourable. Chevron and Petronas have recently initiated projects of more than $1bn.

Argentina has adopted a "much needed transition to a more consistent and sustainable economic policy framework," according to the IMF. While inflicting some short-term pain, growth should strengthen to 2.7% in 2017 thanks to moderating inflation and more supportive monetary and fiscal policy stances.

At the end of 2015, Argentina terminated or reduced the impact of several measures that had a substantial adverse effect on trade. These measures included a system of importer declarations for goods, found to be incompatible with WTO rules, export taxes, a luxury tax for vehicles and access to foreign currencies.

Uganda

Uganda has moved up six spots in the Index to 41st, with its score rising by 0.33.

Its advance is largely thanks to improvements in its Connectedness sub-index. Uganda appears to have bettered its underlying structures supporting international trade – lower trade barriers, significant improvements to customs procedures and superior infrastructure.

A ten-year infrastructure overhaul worth $11bn is planned, which is expected to have positive spillovers on agro-processing, manufacturing and trade, according to an IMF report. Upgrading its transportation network and electricity generation capacity is its top economic priority.

On the downside, 2016 was an election year. Yoweri Museveni, who has ruled Uganda for 30 years, was re-elected as president amid arrests of opposition politicians and allegations of rigging. The main opposition leader has been arrested multiple times since the election.

Nigeria

Nigeria was the worst performer in this year's Index, falling by nine spots to 24th as its score fell by 0.43 points.

The primary driver of its collapse is that its economic growth forecasts have been slashed. In the IMF's October 2014 World Economic Outlook, GDP growth rates for 2015-2020 averaged around 7%. The following year, they were cut to 4%, and the latest round of forecasts has the figure in the range of 1-2%, with recession overall for 2016. The economy shrank in the first half of 2016, signalling that Nigeria is experiencing its first recession since 2004.

Low oil prices are interacting with difficult domestic political and economic conditions. Economic activity is being disrupted by shortages of foreign exchange (thanks to lower oil revenues), militant activity in the Niger Delta, and electricity blackouts.

The activities of the so-called Niger Delta Avengers, including the destruction of pipelines and sabotage of wells, have contributed to a fall in oil production. For the second quarter of 2016, production was down by nearly 20% year-on-year. In June, with the value of the naira under pressure, the Nigerian Central Bank abandoned its peg of 197 per US dollar. For August, September and October, the value of the naira has averaged over 300 per dollar. The effect of oil troubles on the 'real' economy is evident, particularly bad for those reliant on imports given the weakening exchange rate, or those with government contracts.

President Muhammadu Buhari took until November 2015 to form a new government, having been elected in spring of the same year. The budget for 2016 wasn't approved until May 2016, delaying infrastructure spending, further suppressing growth.

Thailand

Thailand's score fell 0.24 points, pushing the country down two spots to 15th in the Index.

Broad-based decline across all three sub-indices has been recorded, as GDP growth prospects and quality of infrastructure worsened year-on-year. On a more positive note, the government is mulling over doubling the infrastructure budget to $102bn.

IMF data suggests GDP forecasts for the next five years have slipped from the 4%-5% range to an average of 3%.

Thailand appears to be stuck in the so-called middle-income trap. It is a developing economy that grew quickly thanks to cheap labour and heavy capital investment, but has since failed to advance as these advantages have dried up. Growth was fuelled by exports, but major exports from Thailand such as hard-disk drives are becoming less and less important. It hasn't innovated and progressed up the value chain, like China.

South Africa

South Africa slipped four places in the Index to 21st.

Certain Market Compatibility sub-Index measures, such as risks of crime, violence and terrorism hurt South Africa.

Furthermore, FDI, also part of the Market Compatibility sub-Index, fell to a 10-year low in 2015, according to UNCTAD data. FDI decreased by 69% to $1.8bn. UNCTAD attributed the weak performance to "lacklustre economic performance, low commodity prices and higher electricity costs". Sell-offs of non-core assets in manufacturing, mining, consulting services and telecommunications contributed to the decline in FDI. Even excluding divestments, however, inflows were considerably lower owing to the economy's continued reliance on mineral-based exports.

A particular concern is that infrastructure development appears to have stalled, both in transport and electricity, with power shortages still chronic.

The IMF projected that GDP would remain flat in 2016 with only a modest recovery in 2017 as commodity and drought shocks dissipate and power supply improves.

Biggest movers by rank

The two largest movers up by rank, Iran (+8) and Uganda (+6), are also two of the three largest movers by score. Bahrain (+5) has had the third highest jump in rank, with its score rising by 0.21 points. Its improvements largely stem from broad-based gains in its Market Compatibility sub-Index. Higher FDI, lower trade barriers and lower business costs of crime, violence and terrorism were reported.

The largest movers down in rank are Nigeria (-9), Tunisia (-5), Paraguay (-4), Uruguay (-4) and South Africa (-4). Tunisia's score fell 0.12, as the country lost ground in Compatibility and Connectedness. Its customs procedures are judged to be considerably more burdensome this year. The remaining two markets, Paraguay (-0.05 in score) and Uruguay (-0.13 in score), both consider themselves victim of the wider economic malaise in South America, the epicentre being Brazil. In 2015, Brazilian imports from South America dropped by 28%. Around 30% of Paraguay's exports go to Brazil, while for Uruguay the figure is around 20%.

New Index Entrants

Iran is the most improved emerging market in this year's Index, rising eight positions to 18th overall as it increasingly becomes part of the global economy and logistics providers' strategies. Alongside Iran, four other emerging markets were added to the Index for 2017 – Ghana (39th), Myanmar (48th), Angola (49th) and Mozambique (50th). As relatively small markets with difficult business environments or poor infrastructure, it is not surprising that they rank toward the bottom of the Index.

The Index scores of Myanmar, Angola and Mozambique all fell modestly year-on-year, while Ghana's score improved by 0.13, a decent if not spectacular performance. These markets obviously present challenges for any logistics provider, but there are also opportunities for them to take the lead in offering more advanced services.

Cuba: A Market Turning Heads

Cuba garnered much interest in 2016 because of the thaw in its relationship with the US and initial steps as part of a gradual lifting of the 56-year US trade embargo on Cuba. US President-elect Donald Trump has suggested he might reverse course and take a tougher line on economic ties with Cuba, so prospects are uncertain for now.

Cuba was considered for possible inclusion in the 2017 Index. However, Transport Intelligence and Agility decided against adding Cuba until more reliable data is available. Compared to emerging markets in the Index, Cuba lacks comparable data for financial stability, FDI, prevalence of trade barriers, quality of infrastructure, efficiency of its customs and border regime, and the business costs of crime, violence and terrorism.

What can we say about Cuba's business climate? It appears to be challenging. The Cuban government controls more than three-quarters of the economy. Some assert that private enterprise is on the increase, though critics maintain that small businesses must obtain licences to operate, giving the state almost full control. Cuban citizens have relatively low purchasing power, and Cuba's physical infrastructure is badly outdated. Despite all of this, some Canadian and European companies have been operating successfully in Cuba for over two decades. A move that interested many in 2014 was the creation of a special economic zone at the Port of Mariel. The government hopes to attract $8.2bn of FDI and more than 300 ventures.

What does available data tell us about Cuba in relation to the 50 Index markets? Cuba is a relatively small market, ranking 39th in both GDP (PPP) and population. Its economic growth forecast is better than most, ranking 17th highest, although this is clouded with more uncertainty than many other emerging markets given the uncertain course of its relationship with the US. Perhaps the closest available proxy for the Compatibility and Connectedness sub-Indices is the World Bank's Logistics Performance Index. By this measure, Cuba ranks 47th. It is clear then that Cuba would not enter the Emerging Markets Index as impressively, for instance, as Iran. More likely, it would be among the lower echelons of the Index alongside the other new entrants, in the range of 30th to 45th place. It is not appropriate to offer a narrower estimate given the considerable uncertainty surrounding this intriguing market.

Agility
A New Logistics Leader

Agility's Take / Cuba

"When you hear that multi-nationals are betting on Cuba, it gives you a level of comfort, but Cuba remains largely opaque as a market. There is very little reliable information about the market – no business or competitive intelligence, no data or government reporting. There is a need for greater transparency."

"If you go to events with Cuban delegations and inquire about opportunities, you inevitably get assigned to a government company as your partner. There is still strong state control. The need for infrastructure development is creating pressure to free up pieces of the logistics market, but it's still premature."

"Major freight forwarders are intrigued by Cuba but generally have not established an operational presence there. You still have an environment where all the steps of the supply chain are under government control."

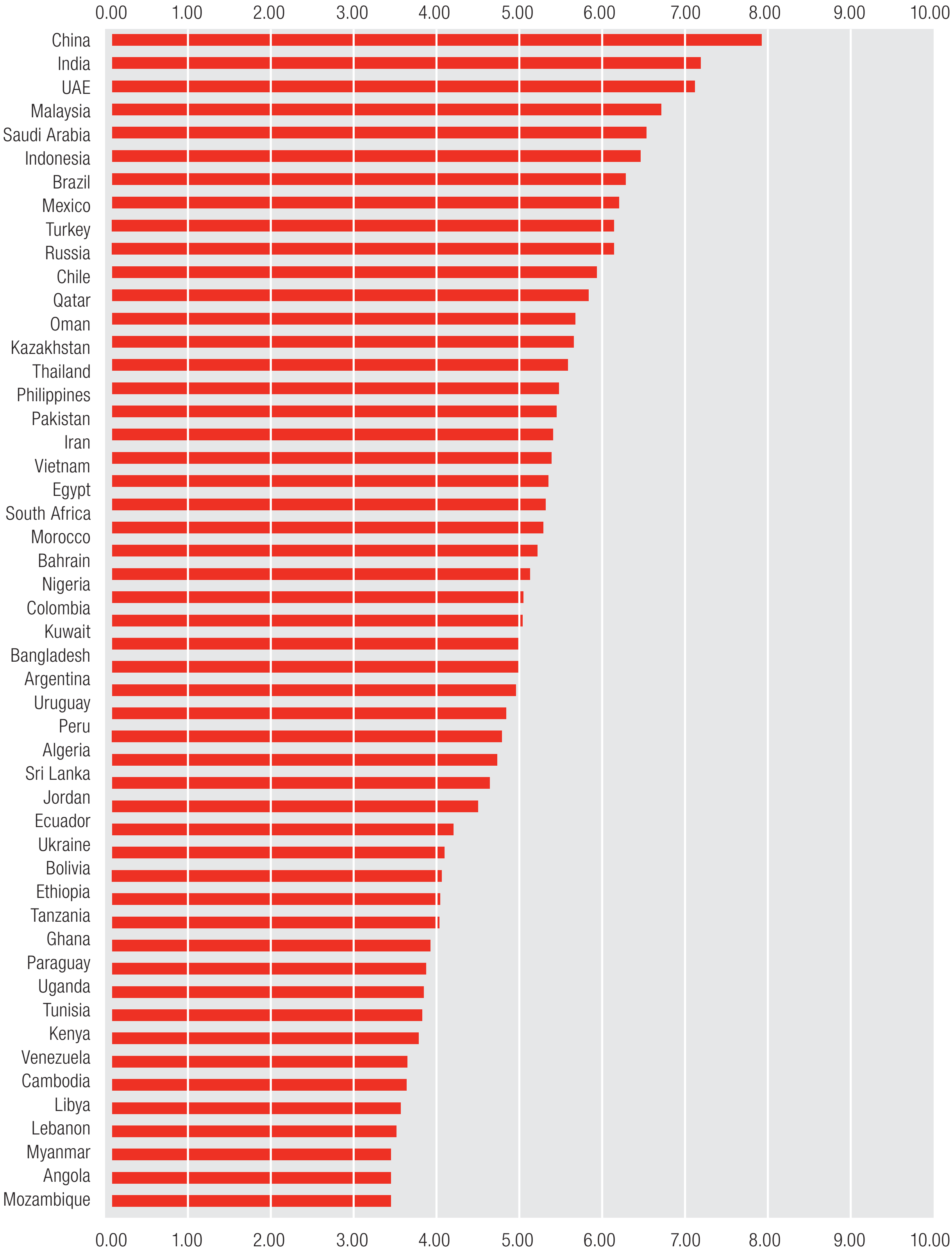
The 2017 Index

Ranking	Country	2017 Index	2016 Index	Change in Ranking
1	**China**	**7.88**	8.00	-
2	**India**	**7.14**	6.83	1
3	**UAE**	**7.07**	7.02	-1
4	**Malaysia**	**6.66**	6.71	-
5	**Saudi Arabia**	**6.48**	6.67	-
6	**Indonesia**	**6.41**	6.50	-
7	**Brazil**	**6.23**	6.46	-
8	**Mexico**	**6.15**	6.25	-
9	**Turkey**	**6.09**	6.05	1
10	**Russia**	**6.09**	6.23	-1
11	**Chile**	**5.88**	6.01	-
12	**Qatar**	**5.78**	5.88	-
13	**Oman**	**5.62**	5.63	1
14	**Kazakhstan**	**5.60**	5.34	4
15	**Thailand**	**5.53**	5.77	-2
16	**Philippines**	**5.42**	5.48	-
17	**Pakistan**	**5.39**	5.21	3
18	**Iran**	**5.35**	4.97	8
19	**Vietnam**	**5.33**	5.25	-
20	**Egypt**	**5.29**	5.16	2
21	**South Africa**	**5.26**	5.43	-4
22	**Morocco**	**5.23**	5.19	-1
23	**Bahrain**	**5.16**	4.95	5
24	**Nigeria**	**5.07**	5.50	-9
25	**Colombia**	**4.99**	5.05	-1
26	**Kuwait**	**4.98**	5.12	-3
27	**Bangladesh**	**4.94**	4.96	-
28	**Argentina**	**4.94**	4.56	3
29	**Uruguay**	**4.90**	5.03	-4
30	**Peru**	**4.78**	4.85	-1
31	**Algeria**	**4.73**	4.55	1
32	**Sri Lanka**	**4.67**	4.67	-2
33	**Jordan**	**4.58**	4.40	1
34	**Ecuador**	**4.44**	4.44	-1
35	**Ukraine**	**4.14**	4.26	-
36	**Bolivia**	**4.03**	3.84	2
37	**Ethiopia**	**4.00**	3.78	3
38	**Tanzania**	**3.98**	3.76	3
39	**Ghana**	**3.97**	3.84	-
40	**Paraguay**	**3.86**	3.91	-4
41	**Uganda**	**3.81**	3.48	6
42	**Tunisia**	**3.78**	3.90	-5
43	**Kenya**	**3.76**	3.55	2
44	**Venezuela**	**3.72**	3.74	-2
45	**Cambodia**	**3.58**	3.55	1
46	**Libya**	**3.57**	3.70	-3
47	**Lebanon**	**3.50**	3.62	-3
48	**Myanmar**	**3.45**	3.46	-
49	**Angola**	**3.38**	3.40	1
50	**Mozambique**	**3.38**	3.46	-1

Note: In 2017, Iran, Ghana, Myanmar, Angola and Mozambique have been added to the Index. As such, scores for 2016 have been restated to include these emerging markets.
Note: For further explanation, please refer to Section 3: Methodology.

Source: Transport Intelligence

The 2017 Index



Source: Transport Intelligence

Agility Emerging Markets Logistics Index for Countries with GDP more than US$300bn

While there remain 16 economies with GDP above $300bn, newly introduced Iran moves into 11th in the grouping and replaces Malaysia which, due to lower growth and currency volatility, slips into the lower grouping. Also falling out of the top group is Colombia, while Egypt rises from the second grouping. Despite this, it remains true that there is a strong correlation between size of economy and high potential as an emerging logistics market.

To depend solely on market size, however, would paint a misleading picture of what true logistics market potential looks like. Amongst this group are the UAE and Saudi Arabia with GDP just 3.4% and 5.9% the size of 1st ranked China, while both outperform the much larger economies of Brazil and Russia, for example.

Note: GDP here is measured in current US$. Venezuela is included here based on the latest available GDP data for the country, which reflects 2013.

Ranking	Country	Market size and growth sub-index	Market compatibility sub-index	Market connected-ness sub-index	Total Index
1	**China**	9.23	6.91	6.80	**7.88**
2	**India**	9.39	5.39	5.43	**7.14**
3	**UAE**	5.73	8.77	7.74	**7.07**
4	**Saudi Arabia**	6.48	6.88	6.25	**6.48**
5	**Indonesia**	8.64	4.52	4.79	**6.41**
6	**Brazil**	7.65	5.95	4.72	**6.23**
7	**Mexico**	7.42	4.75	5.41	**6.15**
8	**Turkey**	6.76	5.67	5.53	**6.09**
9	**Russia**	6.80	5.45	5.59	**6.09**
10	**Thailand**	6.53	4.27	5.02	**5.53**
11	**Iran**	5.98	5.09	4.76	**5.35**
12	**Egypt**	6.77	2.82	4.88	**5.29**
13	**South Africa**	5.52	4.25	5.49	**5.26**
14	**Nigeria**	7.07	3.37	3.63	**5.07**
15	**Argentina**	5.16	5.25	4.51	**4.94**
16	**Venezuela**	3.55	3.74	3.91	**3.72**

Source: Transport Intelligence

Agility Emerging Markets Logistics Index for Countries with GDP less than US$300bn

The two markets that fell into this grouping – Malaysia and Colombia – experienced different fortunes here. Malaysia's economy is still large, and its openness to trade and high value exports means it ranks as the top market. Colombia, however, despite an economy which rivals that of Malaysia, has performed much less well in opening its market to international trade, with exports heavily reliant on oil and agricultural products.

Comparing the scores of the countries here with those in the grouping with GDP above $300bn reveals that 28 of the 34 outperform Venezuela, while 13 would better or match Argentina. With Malaysia ranked here as a result of currency fluctuations, it is more insightful to look at Chile's comparative score – the Latin American market would have ranked in the top 10, due primarily to a lower ranking in the Market Size & Growth Attractiveness sub-Index. Indeed, Chile's Compatibility and Connectedness scores rival those of Saudi Arabia and China.

Ranking	Country	Market size and growth sub-index	Market compatibility sub-index	Market connected-ness sub-index	Total Index
1	**Malaysia**	6.65	6.22	6.91	**6.66**
2	**Chile**	5.29	6.25	6.38	**5.88**
3	**Qatar**	4.71	8.26	5.71	**5.78**
4	**Oman**	4.12	7.80	6.22	**5.62**
5	**Kazakhstan**	4.81	6.95	5.80	**5.60**
6	**Philippines**	7.03	4.36	4.08	**5.42**
7	**Pakistan**	7.25	2.95	4.51	**5.39**
8	**Vietnam**	5.73	5.32	4.87	**5.33**
9	**Morocco**	4.34	6.41	5.65	**5.23**
10	**Bahrain**	3.45	6.99	6.20	**5.16**
11	**Colombia**	5.94	2.89	5.01	**4.99**
12	**Kuwait**	4.69	6.33	4.60	**4.98**
13	**Bangladesh**	6.05	4.52	3.85	**4.94**
14	**Uruguay**	3.56	6.83	5.45	**4.90**
15	**Peru**	4.94	4.31	4.84	**4.78**
16	**Algeria**	5.02	4.96	4.26	**4.73**
17	**Sri Lanka**	3.44	5.77	5.51	**4.67**
18	**Jordan**	3.05	5.98	5.64	**4.58**
19	**Ecuador**	2.92	4.73	6.06	**4.44**
20	**Ukraine**	3.62	4.31	4.66	**4.14**
21	**Bolivia**	3.01	5.83	4.27	**4.03**
22	**Ethiopia**	3.72	4.00	4.32	**4.00**
23	**Tanzania**	3.44	4.72	4.21	**3.98**
24	**Ghana**	3.12	5.16	4.33	**3.97**
25	**Paraguay**	3.06	4.75	4.32	**3.86**
26	**Uganda**	3.18	3.75	4.59	**3.81**
27	**Tunisia**	3.28	4.09	4.19	**3.78**
28	**Kenya**	3.61	2.29	4.71	**3.76**
29	**Cambodia**	2.80	4.61	3.95	**3.58**
30	**Libya**	2.97	2.20	5.01	**3.57**
31	**Lebanon**	2.71	4.37	3.97	**3.50**
32	**Myanmar**	3.69	2.67	3.60	**3.45**
33	**Angola**	3.31	3.39	3.46	**3.38**
34	**Mozambique**	2.78	3.61	3.95	**3.38**

Source: Transport Intelligence

Agility Emerging Markets Logistics Index – Sub-Indices

Ranking	Country	Market size and growth sub-index	Market compatibility sub-index	Market connectedness sub-index	Total Index
1	**China**	9.23	6.91	6.80	**7.88**
2	**India**	9.39	5.39	5.43	**7.14**
3	**UAE**	5.73	8.77	7.74	**7.07**
4	**Malaysia**	6.65	6.22	6.91	**6.66**
5	**Saudi Arabia**	6.48	6.88	6.25	**6.48**
6	**Indonesia**	8.64	4.52	4.79	**6.41**
7	**Brazil**	7.65	5.95	4.72	**6.23**
8	**Mexico**	7.42	4.75	5.41	**6.15**
9	**Turkey**	6.76	5.67	5.53	**6.09**
10	**Russia**	6.80	5.45	5.59	**6.09**
11	**Chile**	5.29	6.25	6.38	**5.88**
12	**Qatar**	4.71	8.26	5.71	**5.78**
13	**Oman**	4.12	7.80	6.22	**5.62**
14	**Kazakhstan**	4.81	6.95	5.80	**5.60**
15	**Thailand**	6.53	4.27	5.02	**5.53**
16	**Philippines**	7.03	4.36	4.08	**5.42**
17	**Pakistan**	7.25	2.95	4.51	**5.39**
18	**Iran**	5.98	5.09	4.76	**5.35**
19	**Vietnam**	5.73	5.32	4.87	**5.33**
20	**Egypt**	6.77	2.82	4.88	**5.29**
21	**South Africa**	5.52	4.25	5.49	**5.26**
22	**Morocco**	4.34	6.41	5.65	**5.23**
23	**Bahrain**	3.45	6.99	6.20	**5.16**
24	**Nigeria**	7.07	3.37	3.63	**5.07**
25	**Colombia**	5.94	2.89	5.01	**4.99**
26	**Kuwait**	4.69	6.33	4.60	**4.98**
27	**Bangladesh**	6.05	4.52	3.85	**4.94**
28	**Argentina**	5.16	5.25	4.51	**4.94**
29	**Uruguay**	3.56	6.83	5.45	**4.90**
30	**Peru**	4.94	4.31	4.84	**4.78**
31	**Algeria**	5.02	4.96	4.26	**4.73**
32	**Sri Lanka**	3.44	5.77	5.51	**4.67**
33	**Jordan**	3.05	5.98	5.64	**4.58**
34	**Ecuador**	2.92	4.73	6.06	**4.44**
35	**Ukraine**	3.62	4.31	4.66	**4.14**
36	**Bolivia**	3.01	5.83	4.27	**4.03**
37	**Ethiopia**	3.72	4.00	4.32	**4.00**
38	**Tanzania**	3.44	4.72	4.21	**3.98**
39	**Ghana**	3.12	5.16	4.33	**3.97**
40	**Paraguay**	3.06	4.75	4.32	**3.86**
41	**Uganda**	3.18	3.75	4.59	**3.81**
42	**Tunisia**	3.28	4.09	4.19	**3.78**
43	**Kenya**	3.61	2.29	4.71	**3.76**
44	**Venezuela**	3.55	3.74	3.91	**3.72**
45	**Cambodia**	2.80	4.61	3.95	**3.58**
46	**Libya**	2.97	2.20	5.01	**3.57**
47	**Lebanon**	2.71	4.37	3.97	**3.50**
48	**Myanmar**	3.69	2.67	3.60	**3.45**
49	**Angola**	3.31	3.39	3.46	**3.38**
50	**Mozambique**	2.78	3.61	3.95	**3.38**

Source: Transport Intelligence

Market Size & Growth Attractiveness

The most symbolic development within the Market Size & Growth Attractiveness sub-Index this year is that India has surpassed China to take the top spot in the ranking for the first time. This is mainly thanks to India's superior economic growth forecasts over the medium-term.

Another major development in the year is the decline of Nigeria's score and rank – its economic outlook has been substantially downgraded following the oil price crash among other things. Other major oil producers have also suffered to one degree or another, though Nigeria appears to have been the hardest hit.

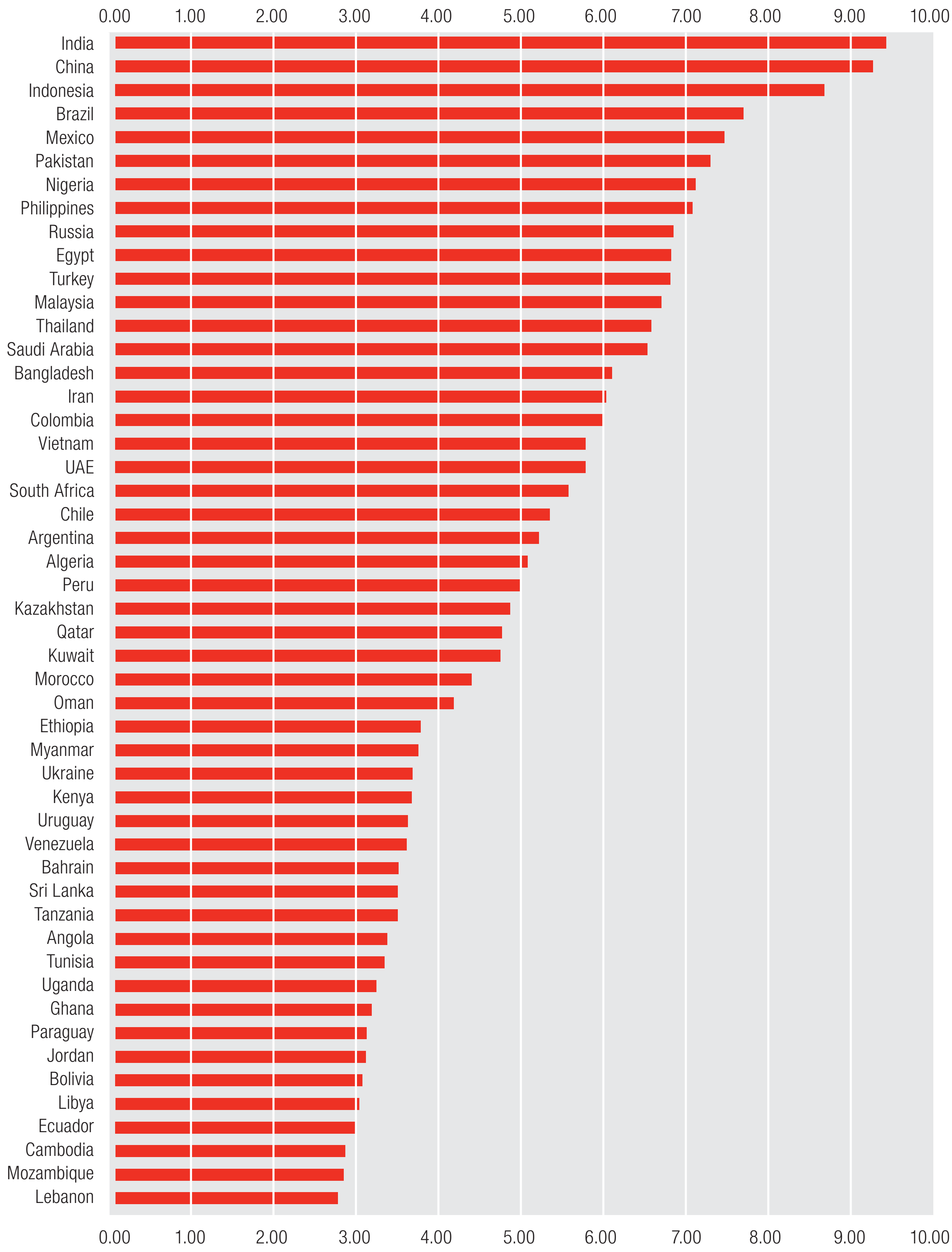
Given difficult global economic conditions, there aren't too many markets making decent strides forward, but the Philippines is one of them, moving up from 12th to 8th. Egypt is another, up from 14th to 10th, as its score has improved to 6.77. Argentina has jumped from 28th to 22nd primarily by virtue of the Macri government setting out a credible economic plan.

Of the five countries included in the Index for the first time, Iran enters at 16th, sandwiched between its regional rivals Saudi Arabia (14th) and UAE (19th). Iran also made substantial gains in this sub-Index year-on-year, moving up from 21st to 16th. The remaining four new entrants, Angola, Ghana, Mozambique and Myanmar, are unsurprisingly all towards the bottom of the ranking. Their scores and ranks did not change much compared to last year.

Ranking	Country	Market size and growth sub-index
1	India	9.39
2	China	9.23
3	Indonesia	8.64
4	Brazil	7.65
5	Mexico	7.42
6	Pakistan	7.25
7	Nigeria	7.07
8	Philippines	7.03
9	Russia	6.80
10	Egypt	6.77
11	Turkey	6.76
12	Malaysia	6.65
13	Thailand	6.53
14	Saudi Arabia	6.48
15	Bangladesh	6.05
16	Iran	5.98
17	Colombia	5.94
18	Vietnam	5.73
19	UAE	5.73
20	South Africa	5.52
21	Chile	5.29
22	Argentina	5.16
23	Algeria	5.02
24	Peru	4.94
25	Kazakhstan	4.81
26	Qatar	4.71
27	Kuwait	4.69
28	Morocco	4.34
29	Oman	4.12
30	Ethiopia	3.72
31	Myanmar	3.69
32	Ukraine	3.62
33	Kenya	3.61
34	Uruguay	3.56
35	Venezuela	3.55
36	Bahrain	3.45
37	Sri Lanka	3.44
38	Tanzania	3.44
39	Angola	3.31
40	Tunisia	3.28
41	Uganda	3.18
42	Ghana	3.12
43	Paraguay	3.06
44	Jordan	3.05
45	Bolivia	3.01
46	Libya	2.97
47	Ecuador	2.92
48	Cambodia	2.80
49	Mozambique	2.78
50	Lebanon	2.71

Source: Transport Intelligence

Market Size & Growth Attractiveness Sub-Index



Source: Transport Intelligence

Market Compatibility

Seven of the top 10 ranked markets for Compatibility now come from the Middle East & North Africa region, compared to just five last year. The UAE retains its position at the top for a third consecutive year, with its abundance of free trade zones, no corporation tax, the offer of full ownership and unlimited repatriation of profits still setting the benchmark for emerging markets. That said, Qatar (2nd) has more or less halved the gap between itself and the UAE in terms of score, as trade barriers continue to be diminished.

While Oman's score also improved, Bahrain's gain was much more pronounced. It has moved from 11th to 4th on the back of lower trade barriers and business costs of crime and terrorism. Morocco (9th) was the other new entry to the top 10, as Chile and Malaysia fell outside.

Russia continues its descent down the rankings from 16th to 18th as its relationships with most of the international community continue to be frosty, though the relationship between Putin and Trump will be one to watch going forward.

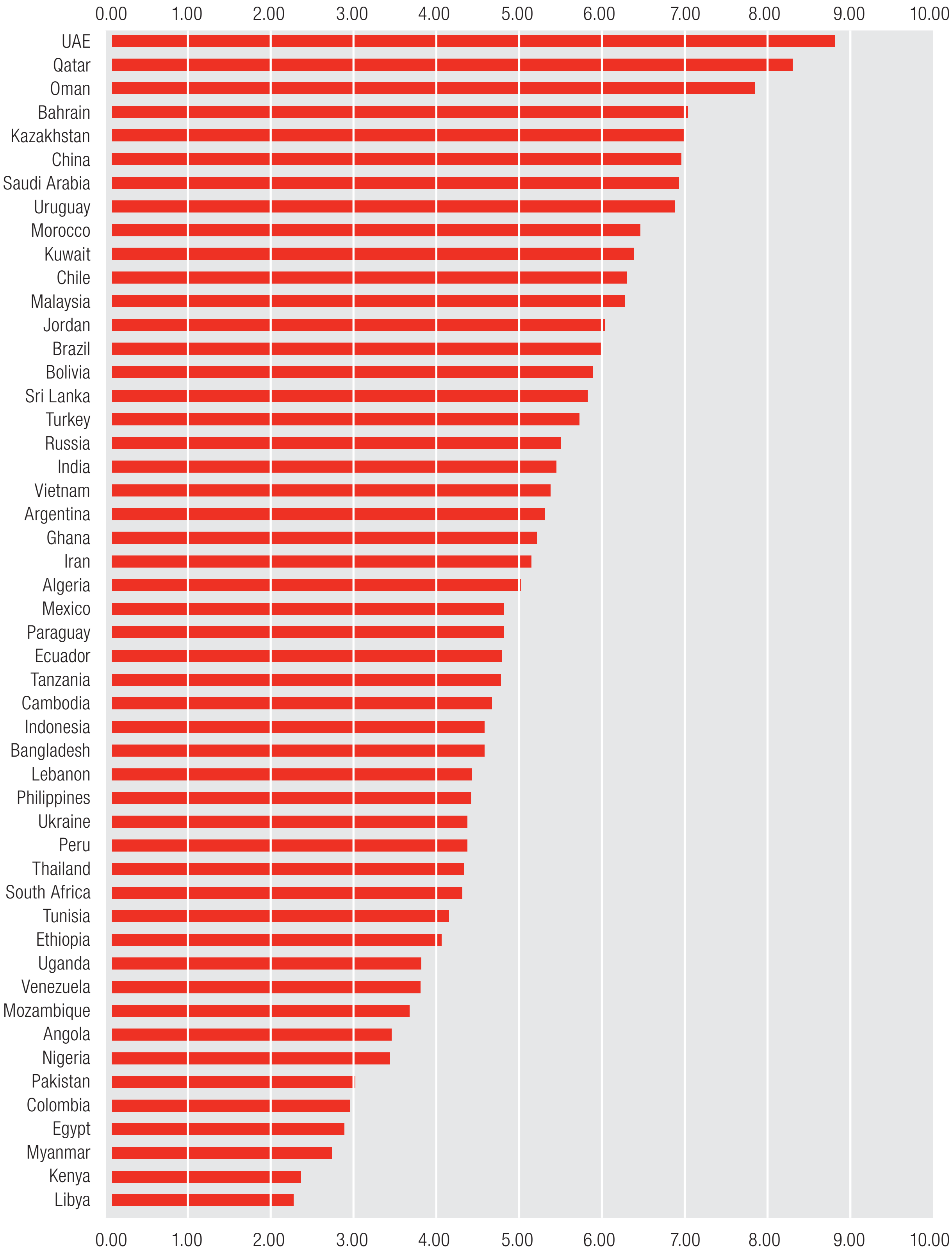
India has progressed from 21st to 19th as FDI has increased and trade barriers have lowered. Enhanced international investment will no doubt depend on improvements to the country's regulatory and bureaucratic structure. The news around GST appears to have generated renewed hope that meaningful improvements can and will be made.

Among the five new entrants to the Index, Ghana ranks highest at 22nd, one place better than Iran at 23rd. Ghana has improved year-on-year thanks to lower trade barriers and business costs of crime and terrorism. Its above average overall scores in these facets are core drivers behind its decent ranking. Mozambique, Angola and Myanmar all languish below 40th place.

Ranking	Country	Market Compatibility sub-index
1	**UAE**	8.77
2	**Qatar**	8.26
3	**Oman**	7.80
4	**Bahrain**	6.99
5	**Kazakhstan**	6.95
6	**China**	6.91
7	**Saudi Arabia**	6.88
8	**Uruguay**	6.83
9	**Morocco**	6.41
10	**Kuwait**	6.33
11	**Chile**	6.25
12	**Malaysia**	6.22
13	**Jordan**	5.98
14	**Brazil**	5.95
15	**Bolivia**	5.83
16	**Sri Lanka**	5.77
17	**Turkey**	5.67
18	**Russia**	5.45
19	**India**	5.39
20	**Vietnam**	5.32
21	**Argentina**	5.25
22	**Ghana**	5.16
23	**Iran**	5.09
24	**Algeria**	4.96
25	**Mexico**	4.75
26	**Paraguay**	4.75
27	**Ecuador**	4.73
28	**Tanzania**	4.72
29	**Cambodia**	4.61
30	**Indonesia**	4.52
31	**Bangladesh**	4.52
32	**Lebanon**	4.37
33	**Philippines**	4.36
34	**Ukraine**	4.31
35	**Peru**	4.31
36	**Thailand**	4.27
37	**South Africa**	4.25
38	**Tunisia**	4.09
39	**Ethiopia**	4.00
40	**Uganda**	3.75
41	**Venezuela**	3.74
42	**Mozambique**	3.61
43	**Angola**	3.39
44	**Nigeria**	3.37
45	**Pakistan**	2.95
46	**Colombia**	2.89
47	**Egypt**	2.82
48	**Myanmar**	2.67
49	**Kenya**	2.29
50	**Libya**	2.20

Source: Transport Intelligence

Market Compatibility Sub-Index



Source: Transport Intelligence

Market Connectedness

As was the case last year, the top 10 ranking positions for Market Connectedness exhibit a large amount of continuity year-on-year as the markets to occupy the top four positions – UAE, Malaysia, China and Chile – were identical, while nine of the 10 retained their positions in the top 10.

Russia regressed from 10th to 13th as the overall quality of its infrastructure is judged to have worsened, as has the burden of its customs procedures. It was replaced in the top 10 by Kazakhstan, which has jumped up to 9th on the back of a score gain of almost 0.7, thanks to better infrastructure and customs procedures.

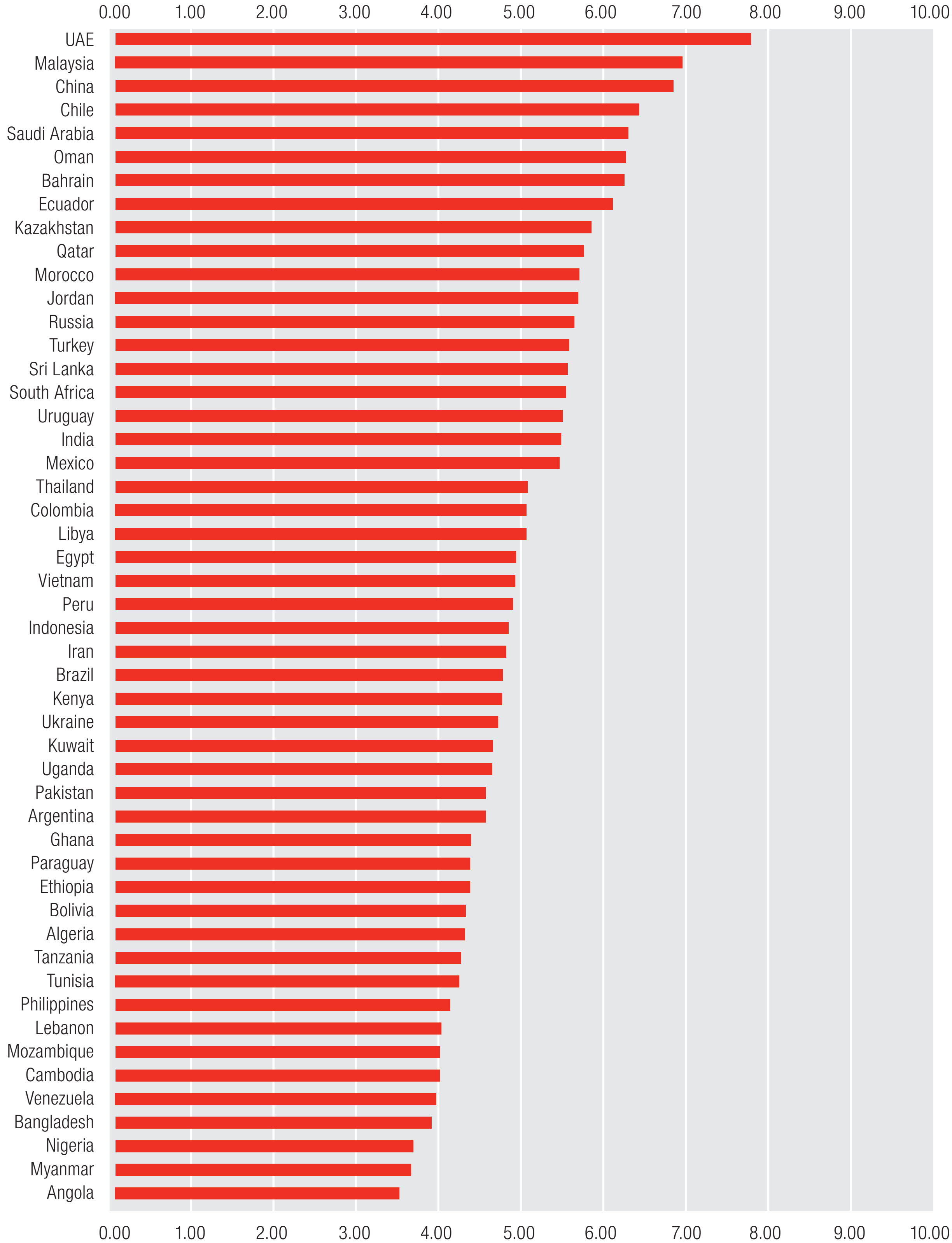
Two major markets, India and Brazil, appear to be going in different directions. India is clearly taking steps to address its infrastructure deficit, having moved up to 18th, while Brazil is continuing its slide into mediocrity as it has fallen to 28th.

Among the five new Index markets, Iran ranks best at 27th, followed by Ghana (35th), while Mozambique (44th), Myanmar (49th) and Angola (50th) are among the poorest connected emerging markets.

Ranking	Country	Market Connectedness sub-index
1	UAE	7.74
2	Malaysia	6.91
3	China	6.80
4	Chile	6.38
5	Saudi Arabia	6.25
6	Oman	6.22
7	Bahrain	6.20
8	Ecuador	6.06
9	Kazakhstan	5.80
10	Qatar	5.71
11	Morocco	5.65
12	Jordan	5.64
13	Russia	5.59
14	Turkey	5.53
15	Sri Lanka	5.51
16	South Africa	5.49
17	Uruguay	5.45
18	India	5.43
19	Mexico	5.41
20	Thailand	5.02
21	Colombia	5.01
22	Libya	5.01
23	Egypt	4.88
24	Vietnam	4.87
25	Peru	4.84
26	Indonesia	4.79
27	Iran	4.76
28	Brazil	4.72
29	Kenya	4.71
30	Ukraine	4.66
31	Kuwait	4.60
32	Uganda	4.59
33	Pakistan	4.51
34	Argentina	4.51
35	Ghana	4.33
36	Paraguay	4.32
37	Ethiopia	4.32
38	Bolivia	4.27
39	Algeria	4.26
40	Tanzania	4.21
41	Tunisia	4.19
42	Philippines	4.08
43	Lebanon	3.97
44	Mozambique	3.95
45	Cambodia	3.95
46	Venezuela	3.91
47	Bangladesh	3.85
48	Nigeria	3.63
49	Myanmar	3.60
50	Angola	3.46

Source: Transport Intelligence

Market Connectedness Sub-Index



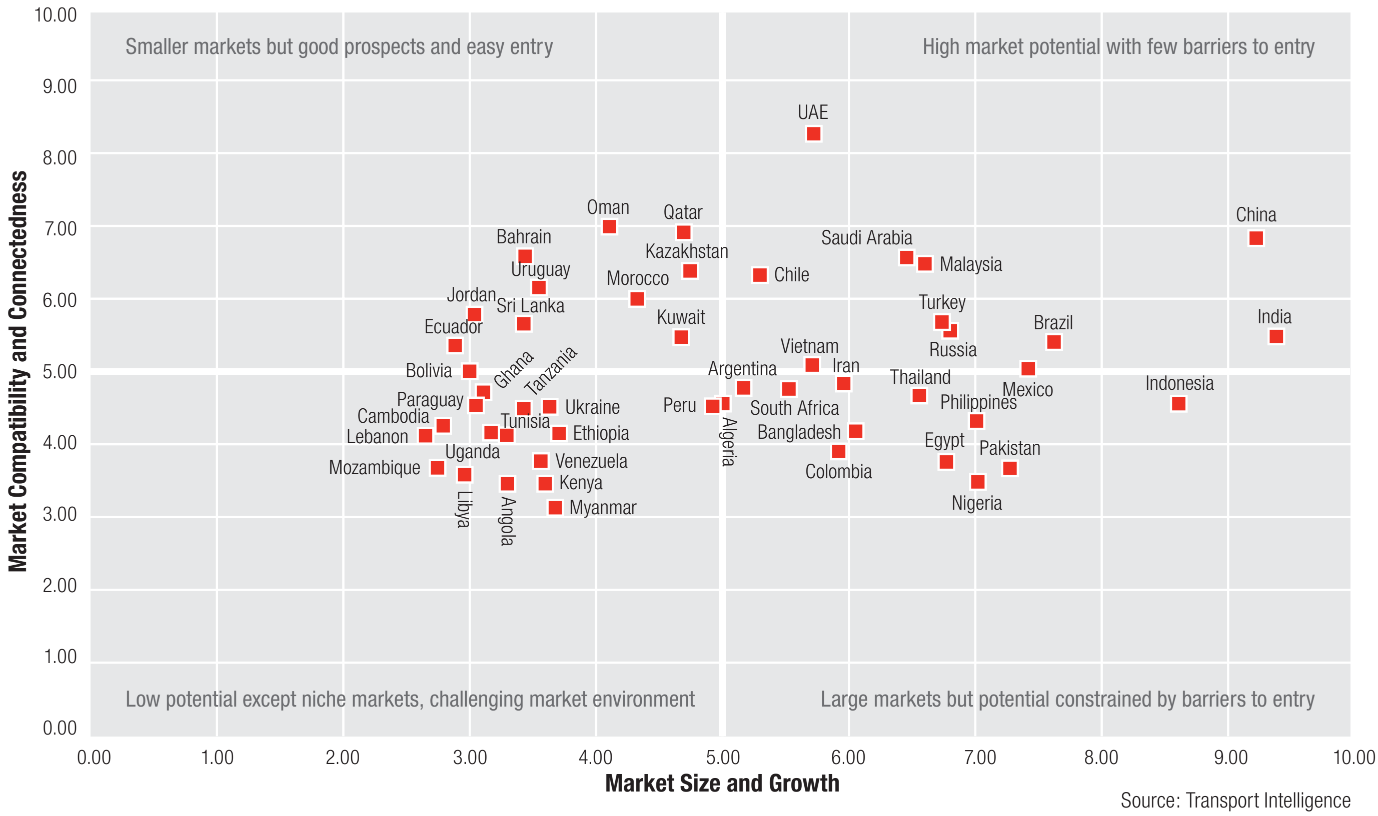
Source: Transport Intelligence

The emerging markets quadrant displays the relative positions of the countries in the Index. The chart is divided into four areas based on size and potential barriers to entry (an average of Market Compatibility and Market Connectedness).

Countries in the top right quartile, such as China, represent the biggest targets for logistics investments as well as the easiest markets to operate in. In the top left quartile are those countries that represent smaller opportunities, but are easily penetrated. Oman and Qatar represent these types of opportunities.

The bottom half of the chart includes countries in which there are significant barriers to entry and difficulties in operating. As these economies mature and connect more with global markets they are likely to move towards the upper quartiles. Nigeria and Kenya are examples of these types of opportunities.

Emerging Markets Quadrant



Source: Transport Intelligence

TOP 10

NEW ENTRANTS

Iran

was the most improved emerging logistics market, rising eight positions to 18th overall

Ghana (39th), Myanmar (48th), Angola (49th) and Mozambique (50th) struggled

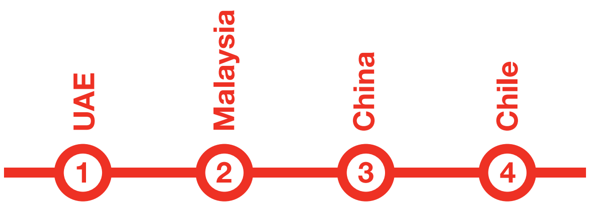
Nigeria suffers the largest loss in ranking, down to 24th -9

21 South Africa down 4 positions

But Ethiopia, Tanzania, Ghana, Uganda and Kenya all improved their scores

India moved ahead of China to top the Market Size & Growth Attractiveness sub-Index in 2017

Seven of the top 10 ranked markets for Compatibility – a measure of the overall business climate – now come from the Middle East & North Africa region, up from five in 2016.



The top 4 for Market Connectedness remained the same year-on-year

+12 Kazakhstan #9

Russia #13 -3

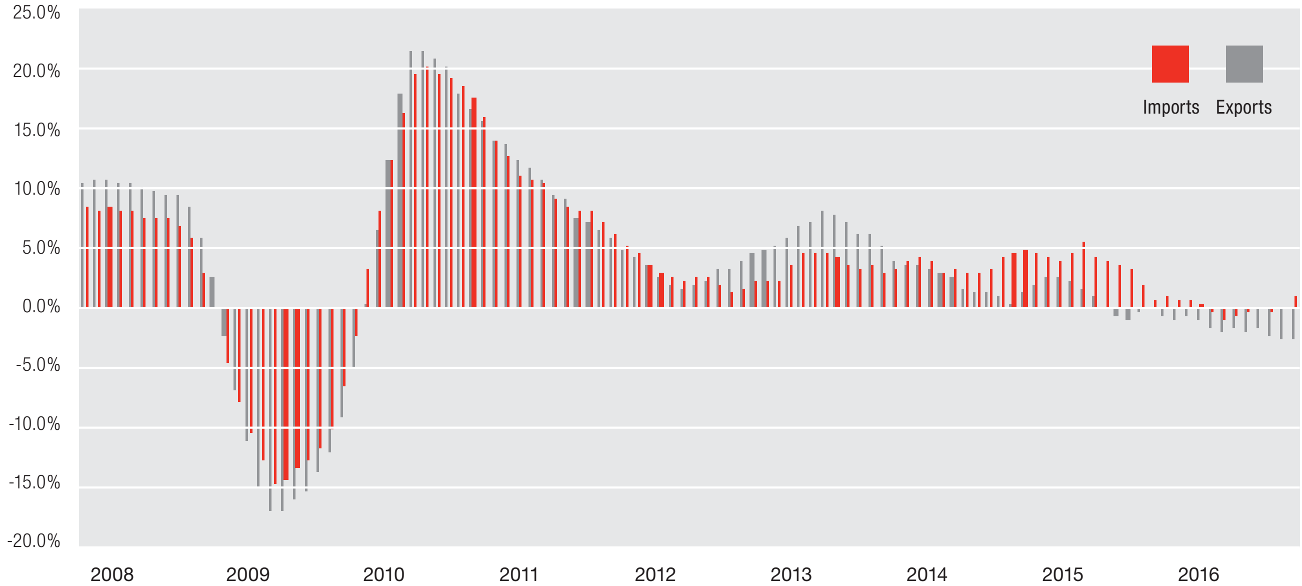
Emerging Market Trade Lanes

Six

Trade volumes are struggling in emerging markets. The following graph tracks their year-on-year export and import volume growth. Specifically, it measures the total value of trade over time, but holds the prices of all goods constant, so that changes are only driven by variation in the quantity of goods exported or imported.

If 2015 was a year of low or no growth, then 2016 is set to be worse still. For January-August 2016, emerging market import volumes are down by 2.6% year-on-year, while for exports the drop has been 0.3%. A large part of the story is weakness in Asia, specifically China. Emerging Asia imports and exports are down by 1.4% and 2.0% respectively over the same period. Import volumes in Latin America (-3.9%) and Africa & Middle East (-11.9%) are faring far worse still, though their export volumes are doing considerably better (4.9% and 2.2%). Overall, 2016 has been a very poor year for emerging market trade, the worst since the crisis.

Emerging market merchandise trade volumes, six-month average, % change on a year earlier

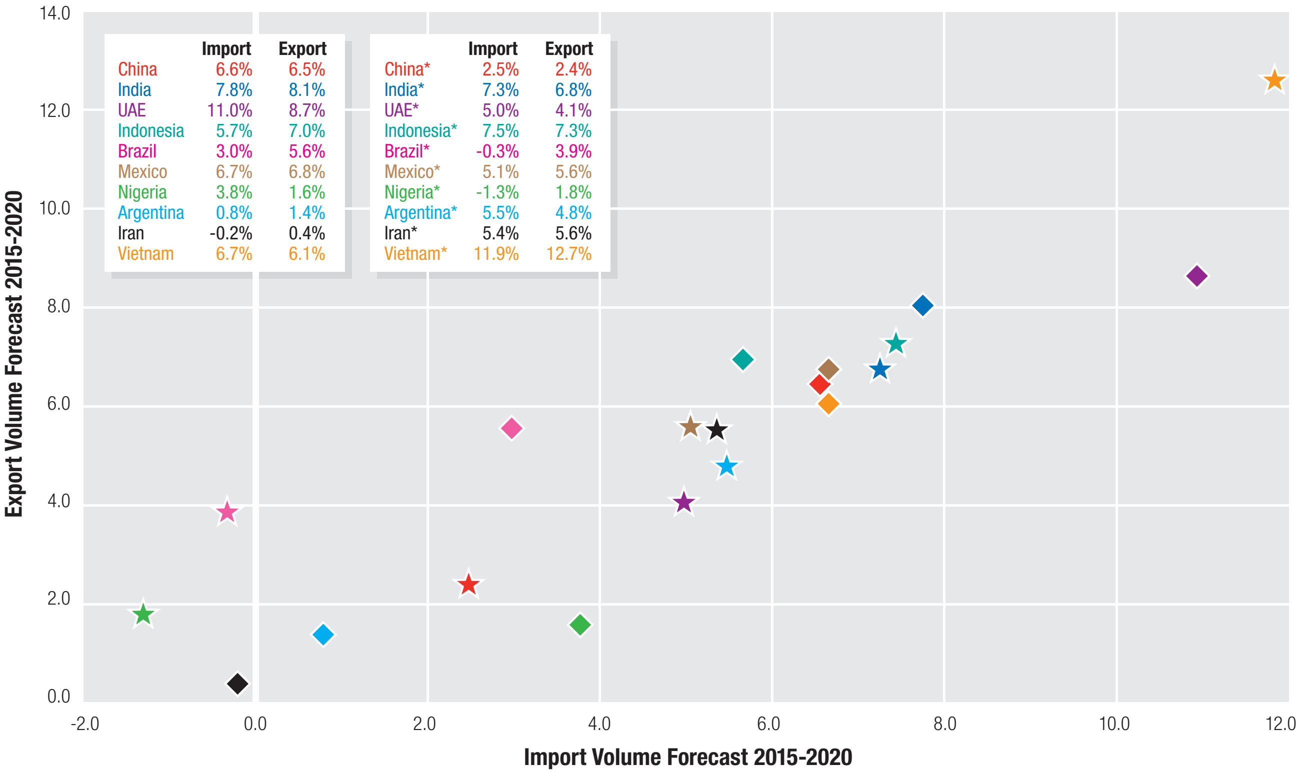


Source: Ti calculations, using data from CPB World Trade Monitor

In last year's Index, it was noted that while the situation was dire in 2015, at least emerging market trade was predicted by the IMF to pick up over the next five years or so. Trade volume growth rates to 2020 for emerging markets overall were expected to return to something like those experienced from 2012-2014, in the region of 5%. Certainly short of the rates experienced prior to the crisis (typically in the range of 5-10%), but still better than the low/no growth performance of 2015. In the latest set of IMF forecasts (October 2016), the export and import CAGRs for 2015-2020 for emerging markets have edged down to more like 4%.

This masks quite substantial differences across countries however, as the next chart illustrates. Over the course of the last 18 months, the IMF has downgraded China's import and export volume growth forecasts from both measures being over 6% to now being just over 2%. With Factory Asia feeding China, this has very much put the brakes on emerging markets generally. Elsewhere, Brazil's import volume forecast is now negative, as is Nigeria's. It is not all doom and gloom though. With international sanctions easing, Iran's trade prospects are now far stronger. Argentina has enjoyed a similar bounce thanks to the new government's economic competence. Vietnam has moved from an already strong position of growth in the high single digits to double-digit growth in both imports and exports.

Trade Volume Forecasts for Selected Emerging Markets 2015-2020 CAGRs



Note: Countries whose names appear without a * are IMF 2015-2020 forecasts released in their April 2015 World Economic Outlook. Countries whose names appear with a * are IMF 2015-2020 forecasts conducted in their October 2016 World Economic Outlook.

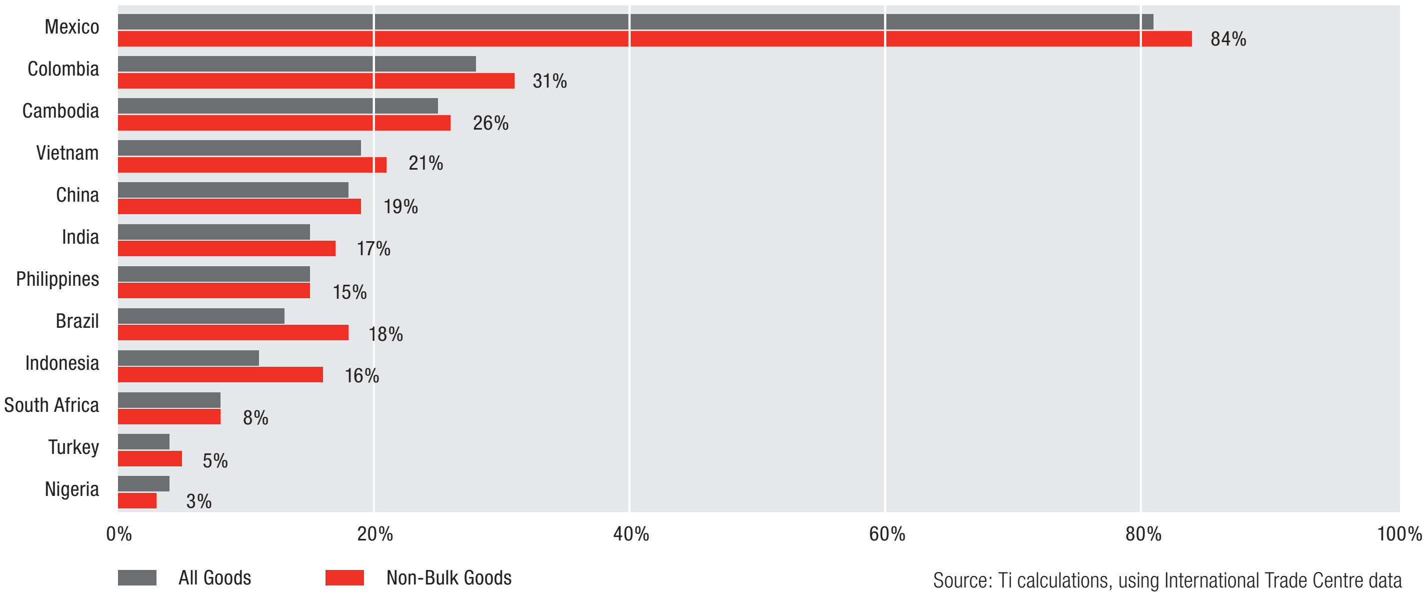
Source: Ti calculations, using IMF data

So if you look hard enough, bright spots can be found. That said, given the latest CPB data, the IMF predictions for 2016 emerging market import and export volume growth of 2.5% and 3.0% respectively look like they will be over-estimates. Have they also over-estimated trade volume growth to 2020? One factor not included in their forecasts will be the implications of the election of Donald Trump.

What does President Trump mean for emerging market trade? Based on his rhetoric, he may well be the single biggest risk to emerging market and world trade over the medium-term. At this stage, it seems prudent to put in the obligatory proviso that trying to predict the course of action of Donald Trump is difficult, but it is worthwhile to look at a few potential scenarios with some hard data in the background for context.

The most obvious way that Trump can impact emerging markets is through trade policy. Looking at the importance of the US as an export partner to a range of emerging markets, it comes as no surprise that Mexico's export profile is more exposed to the US than any other emerging market. Over 80% of its goods exports by value in 2015 were to the US. No other country comes close to that figure, though there is a good deal of variation among other emerging markets. The labels on the graph display an estimate of non-bulk goods exports to the US as a proportion of each country's total non-bulk goods exports. In most cases, the difference between this and the share of all goods is small, although there is a 5-percentage point difference for both Brazil and Indonesia, suggesting logistics providers exposed to non-bulk goods in these markets could be hit disproportionately hard.

Goods Exports to US as a % of Total Goods Exports for Selected Emerging Markets

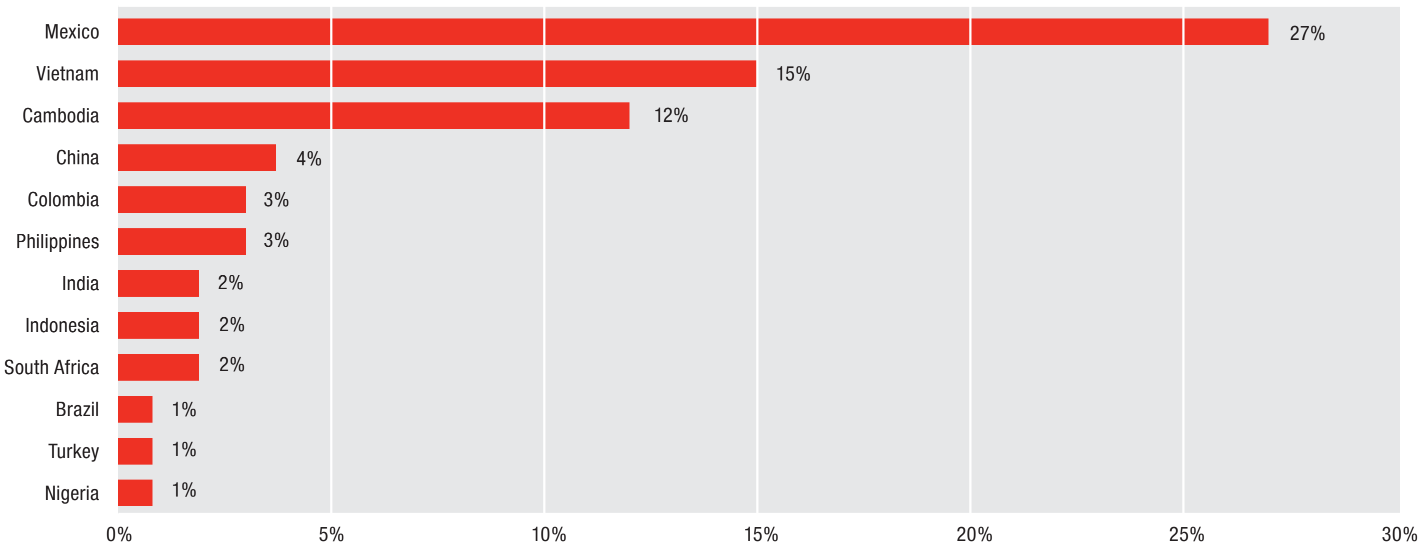


Source: Ti calculations, using International Trade Centre data

Looking at how important US exports are to emerging market economies overall, it is clear just how potentially grave the situation is for Mexico. More than a quarter of its economy is accounted for by goods exports to the US.

For Vietnam and Cambodia, the figures are in excess of 10%. For pretty much all other major emerging markets though, exposure is not nearly as high.

Goods Exports to US as a % of GDP for Selected Emerging Markets



Source: Ti calculations, using International Trade Centre and IMF data

Although it is not clear which country Trump may target the most with his trade policy (he has suggested withdrawing from the WTO), it seems a good bet that Mexico is at the head of the list.

He has threatened to scrap NAFTA, blaming the agreement for shipping American jobs overseas. He has talked about imposing tariffs of 35% on Mexican goods (although China has been threatened with 45%). Mexican central bank governor Agustin Carstens has stated than an “adverse” result in the election could hit the country like a “hurricane”.

And this doesn’t even consider the impact that any other Trump comments or possible policies relating to Mexico he might have. While emerging markets everywhere will likely be buffeted by ‘Trump trade’, the misery for Mexico seems sure to be many times greater than elsewhere.

For now though, as will become clear by the end of the chapter, an examination of emerging market air and sea freight trade for 2016 appears to concur with the CPB’s rather downcast estimation of the state of emerging market trade in the year. As is always the case with emerging markets however, 2016 has still seen some very strong growth on certain trade lanes driven by exceptional volume growth in particular commodity groups. More than ever since the crisis though, those stories seem to be few and far between. With an increasingly difficult external environment, logistics providers will have to work ever harder to make the most of the opportunities that trade in emerging markets presents.

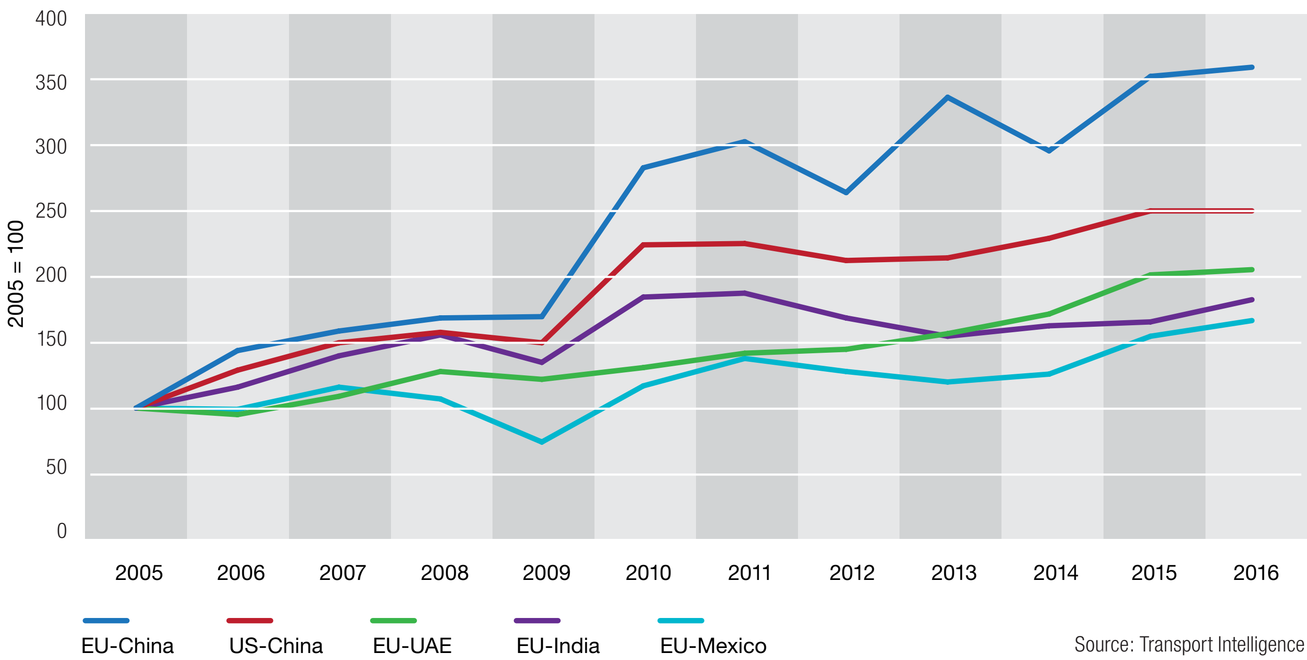
Air Freight Top 10 Trade Lanes – EU/US to Emerging Markets

Rank	Origin	Destination	2015 Tons	2016* Tons	15-16 Growth
1	EU	China	708,817	722,237	1.9%
2	US	China	308,168	308,936	0.2%
3	EU	UAE	237,317	242,409	2.1%
4	EU	India	156,631	173,090	10.5%
5	EU	Mexico	109,240	117,500	7.6%
6	EU	Turkey	113,909	116,258	2.1%
7	EU	Saudi Arabia	124,538	101,867	-18.2%
8	EU	Brazil	99,373	92,730	-6.7%
9	EU	South Africa	97,106	87,344	-10.1%
10	US	Brazil	96,871	85,680	-11.6%
n/a	EU	All 50 EM	2,546,513	2,500,547	-1.8%
n/a	US	All 50 EM	1,091,857	1,023,509	-6.3%
n/a	EU and US	All 50 EM	3,638,370	3,524,056	-3.1%

Note: 2016* figures are forecasts

Source: Transport Intelligence

Air Freight EU/US to Emerging Market Top 5 Trade Lanes 2005-2016 Growth



Source: Transport Intelligence

The 100 air freight trade lanes going from the EU/US to the 50 selected emerging markets in the Index are forecast tonnage growth of -3.1% in 2016. EU trade lanes are predicted growth of -1.8%, whereas US trade lanes are anticipated volume growth of -6.3%. The top 10 lanes are expected to account for approximately 58% of total air tonnage in 2016. This forecast implies an increase of 1.7 percentage points year-on-year, signalling that the top 10 emerging market air freight destinations are becoming relatively more important compared to the chasing pack.

China continues to occupy the top two spots. Out of all air freight going from the EU to the 50 emerging markets, China is expected to be the recipient of 28.9% of tonnage in 2016. For the US, the corresponding figure is 30.2%. EU-China air freight tonnage is once again comfortably more than twice as large as US-China tonnage, with the gap widening further in 2016 as EU growth (1.9%) exceeds the US' performance (0.2%). Both growth rates were weak however.

By commodity, EU-China air freight is enduring a mixed year. Core manufacturing sub-sector groups such as machinery & machinery parts (141,000 tonnes in 2015) and electronics (97,000 tonnes) - which together accounted for over a third of total air freight tonnage in 2015 – have performed positively in the year-to-date. For January-August 2016, volumes for these product groups have increased by 11.7% and 4.8% respectively year-over-year. Other important sectors like plastics & plastic articles (+22.9%) and optic, photo, medic and surgical instruments (+9.2%) are also doing well, though vehicles & vehicle parts tonnage is down (-6.5%). The overall growth figure however is pulled down by weak volumes of dairy products (69,000 tonnes in 2015) and fertilisers (55,000 tonnes). For January-August 2016, volumes have collapsed by 24.3% and 63.6% respectively year-on-year.

US-China air freight is dominated by machinery & machinery parts (53,000 tonnes in 2015), electronics (41,000 tonnes), optic, photo, medic and surgical instruments (26,000 tonnes) and plastics & plastic articles (25,000 tonnes), which together comprised almost half of air freight tonnage in 2015. For January-August 2016, the four groups had mixed performances. Machinery (-3.8%) and plastics (-14.1%) volumes have deteriorated, though electronics (+8.6%) and optic, photo, medic and surgical instruments (+9.6%) have increased. Fruits tonnage is continuing its rapid ascent seen over the past few years and is up 39.2% year-on-year to over 9,000 tonnes.

Turning away from China, the only trade lanes in the top 10 projected to record decent growth rates are EU-India (+10.5%) and EU-Mexico (+7.6%). EU-India's forecast is a result of broad-based gains: its 13 largest product groups in 2015 have recorded higher year-on-year tonnage for January-August 2016. Machinery & machinery parts (+8.0% to 27,000 tonnes), optic, photo, medic and surgical instruments (+7.8% to 6,000 tonnes), plastics & plastic articles (+13.3% to 6,000 tonnes) and vehicles & vehicle parts (+29.9% to 4,000 tonnes) are some of the stand out performers. For EU-Mexico, although machinery & machinery parts and vehicles & vehicle parts tonnage has declined for January-August 2016 year-on-year, electronics (+10.7%), plastics & plastic articles (+15.8%) and especially apparel tonnage (+25.5% to 7,000 tonnes) boosted growth. One logistics provider betting strongly on Mexico is DHL Express. In October 2016, it announced that it would invest $100m in its Mexico infrastructure. Its Mexico CEO said that DHL saw double-digit growth in 2015 and attributed a large part of this to growth from the electronics sector, as well as strong Mexico-US volumes.

Elsewhere, EU-UAE tonnage is forecast subdued growth of just 2.1%, though machinery & machinery parts (+14.3% to 22,000 tonnes) volume has developed well for January-August 2016 year-over-year. The story is remarkably similar for EU-Turkey: overall volume growth for 2016 is weak at 2.1%, though machinery & machinery parts tonnage has increased strongly for the year-to-date (+43.3% to 19,000 tonnes).

The remaining four lanes in the top 10 are expected to endure volume contractions for 2016. EU-Saudi Arabia suffered widespread declines, though once again machinery & machinery parts tonnage held up well, while for EU-South Africa the story was similar except the only major product group to record decent year-on-year growth was plastics & plastic articles (+14.6% for January-August 2016).

As was the case last year, Brazilian air imports from both the EU (-6.7%) and the US (-11.6%) are expected to fall in 2016. It is hardly surprising that import demand is suppressed given its ongoing economic difficulties. Compared to the same period last year, EU-Brazil tonnage for January-August 2016 is down by more than 20% across several major sectors (machinery & machinery parts, electronics and pharmaceuticals etc.). The lone bright spot was that vehicles & vehicle parts tonnage was up by 38.1% to over 8,000 tonnes, as was the case for US-Brazil, with vehicles & vehicle parts tonnage up by 24.0% to over 2,000 tonnes. That said, it also struggled with declines in excess of 20% across a range of product groups (machinery & machinery parts, optic, photo, medic & surgical instruments, plastics & plastic articles etc.).

Air Freight Fastest Growing Trade Lanes – EU/US to Emerging Market (Index of Tons, 2005=100)

Rank	Origin	Destination	2015 Tons	2016* Tons	15-16 Growth	2013 Index	2014 Index	2015 Index	2016 Index*	2013-2016 CAGR	2005-2016 CAGR
1	EU	Vietnam	35,775	49,088	37.2%	245	316	344	472	24.5%	15.2%
2	EU	Pakistan	16,711	21,893	31.0%	122	72	67	88	-10.1%	-1.1%
3	EU	Colombia	24,934	29,591	18.7%	118	127	162	192	17.7%	6.1%
4	EU	Oman	14,037	16,059	14.4%	154	172	179	205	10.0%	6.7%
5	EU	India	156,631	173,090	10.5%	155	163	166	183	5.6%	5.7%
6	EU	Bahrain	12,683	13,737	8.3%	84	107	117	126	14.5%	2.1%
7	EU	Thailand	72,329	78,076	7.9%	162	107	149	161	-0.3%	4.4%
8	EU	Mexico	109,240	117,500	7.6%	120	126	155	167	11.5%	4.7%
9	US	Russia	14,751	15,850	7.5%	205	200	125	134	-13.1%	2.7%
10	EU	Tunisia	13,072	14,039	7.4%	67	75	73	78	5.0%	-2.2%
11	EU	Chile	27,068	28,878	6.7%	139	122	141	150	2.6%	3.8%
12	EU	Ukraine	14,559	15,415	5.9%	102	61	87	92	-3.4%	-0.7%
13	EU	Iran	21,365	22,441	5.0%	46	65	94	99	28.9%	-0.1%
14	EU	Lebanon	19,749	20,699	4.8%	130	136	161	169	8.9%	4.9%
15	EU	Qatar	60,833	63,470	4.3%	275	306	373	389	12.2%	13.2%
16	EU	Philippines	21,651	22,370	3.3%	107	120	141	146	11.0%	3.5%
17	EU	UAE	237,317	242,409	2.1%	157	172	202	206	9.6%	6.8%
18	EU	Turkey	113,909	116,258	2.1%	155	152	186	189	7.0%	6.0%
19	EU	Argentina	21,267	21,698	2.0%	141	123	133	135	-1.5%	2.8%
20	EU	China	708,817	722,237	1.9%	338	297	354	361	2.2%	12.4%
21	US	Vietnam	25,326	25,790	1.8%	341	491	603	615	21.7%	17.9%
22	US	China	308,168	308,936	0.2%	215	230	251	251	5.3%	8.7%
23	EU	Russia	86,512	85,563	-1.1%	61	56	62	61	-0.1%	-4.4%
24	EU	Kuwait	24,316	24,022	-1.2%	89	94	104	103	4.9%	0.3%
25	EU	Peru	12,543	12,252	-2.3%	189	193	223	218	4.9%	7.3%
n/a	EU	All 50 EM	2,546,513	2,500,547	-1.8%	159	151	176	173	2.8%	5.1%
n/a	US	All 50 EM	1,091,857	1,023,509	-6.3%	163	168	160	150	-2.7%	3.7%
n/a	EU and US	All 50 EM	3,638,370	3,524,056	-3.1%	160	156	171	165	1.1%	4.7%

Note: 2016* figures are forecasts

Source: Transport Intelligence

Out of the 54 air freight trade lanes from the EU/US to the Index's emerging markets which recorded volume of at least 10,000 tonnes, only 22 reported positive growth.

Vietnam appears twice in the list, as a destination from the EU (1st) and US (21st). EU-Vietnam air freight is expected to be the fastest growing emerging market air import trade lane, growing at 37.2% in 2016, not all that surprising given its strong medium-term (13-16 CAGR of 24.5%) and longer term performance (05-16 CAGR of 15.2%). 2016 growth is being primarily driven by electronics volume growth, which for January-August 2016 is up to over 5,000 tonnes from under 2,000 tonnes in the same period in 2015. From the US, growth has also been strong over the medium and long run, although it is anticipated to be subdued in 2016 (+1.8%). Electronics tonnage has soared from under 1,000 tonnes to around 3,000 tonnes for the year-to-date, but decline in other groups such as fish and machinery & machinery parts have held growth back.

Three other trade lanes are projected double digit growth for 2016, one of which (EU-India) has already been discussed in the previous section. EU-Pakistan has the second highest growth forecast for 2016 at 31.0%, though its volume is below 2005 and 2013 levels, hardly a dynamic market over a longer timeframe. On the other hand, EU-Colombia and EU-Oman look more attractive prospects, with far better medium and long-term performance. EU-Colombia is forecast tonnage growth of 18.7% in 2016, largely due to fertilisers volume increasing from around 3,000 tonnes to over 7,000 tonnes for January-August 2016 year-on-year. On the same basis, EU-Oman volume growth has been more broad-based: iron & steel articles, fertilisers and chemical products have driven the improvement.

With volume of over 78,000 tonnes expected in 2016, EU-Thailand is a relatively substantial trade lane which is predicted to grow well in 2016 (+7.9%). In fact it has now fully recovered from a slump in 2014, possibly associated with its political crisis, a year which saw real GDP growth reach only 0.8%. Over the long run though, its air volume growth has been robust enough, increasing at a CAGR of 4.4% from 2005 to 2016. The trade lane's most important commodities are machinery & machinery parts (21.7% of tonnage in 2015), fertilisers (18.9%) and electronics (9.3%). For January-August 2016, volume in these products groups has risen by 14.2%, 6.3% and 17.9% respectively.

A country garnering considerable interest from logistics providers lately is Iran. While EU-Iran is a relatively small air freight lane at present with volume only set to exceed 22,000 tonnes in 2016, what is interesting is its growth resurgence in 2015, although 2016 is expected to see just 5.0% growth. Volume at the end of the year is anticipated to be just shy of the level in 2005. For the year-to-date, commodity groups to perform well are pharmaceuticals (+17.6% to around 2,000 tonnes), optic, photo, medic and surgical instruments (+36.1% to around 1,000 tonnes) and machinery (+146.0% to over 2,000 tonnes).

EU-Qatar is predicted growth of just 4.3% in 2016, mainly thanks to oil & gas sector and vegetables volumes rising by 7.7% and 8.4% respectively in January-August 2016 compared to the same period in 2015. While 2016 growth looks relatively subdued, the long-term performance of this trade lane is among the best, exemplified by a 2005-2016 CAGR of 13.2%. In addition, its growth trajectory is remarkably consistent, displaying relatively little volatility.

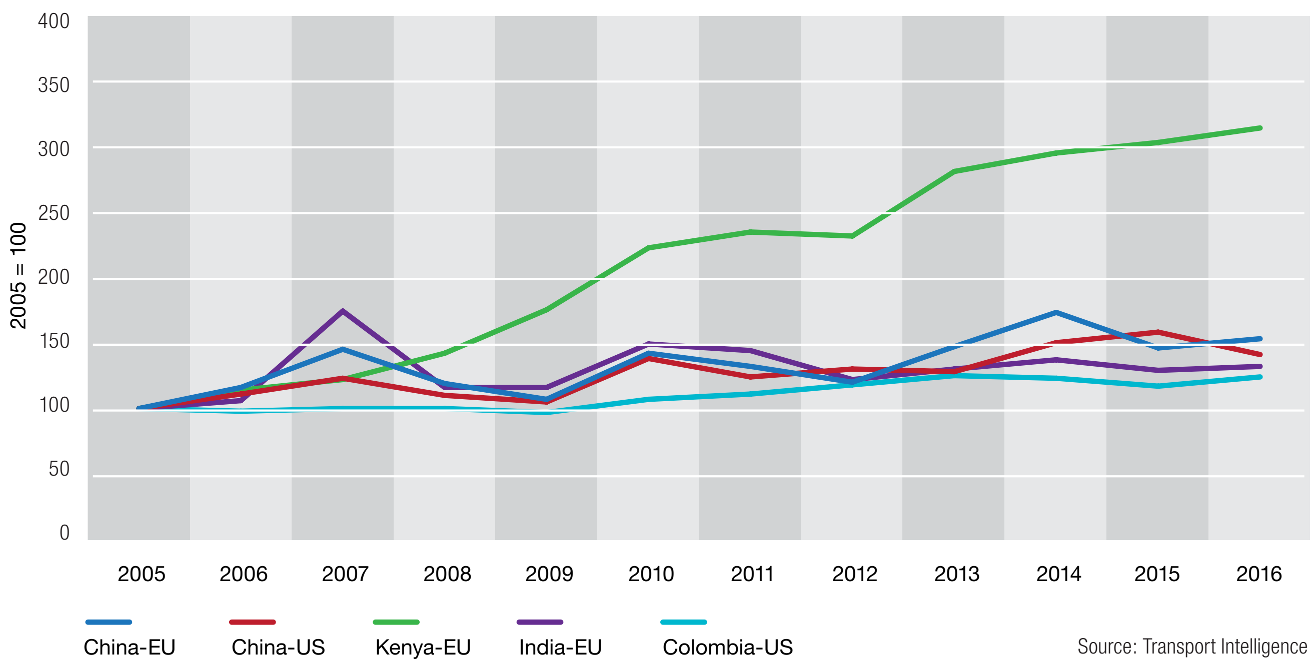
Air Freight Top 10 Trade Lanes – Emerging Market to EU/US

Rank	Origin	Destination	2015 Tons	2016* Tons	15-16 Growth
1	China	EU	1,111,507	1,164,740	4.8%
2	China	US	1,259,570	1,127,256	-10.5%
3	Kenya	EU	201,390	208,768	3.7%
4	India	EU	180,069	184,184	2.3%
5	Colombia	US	156,059	165,640	6.1%
6	Chile	US	143,089	138,180	-3.4%
7	India	US	124,457	129,693	4.2%
8	Mexico	EU	82,986	101,467	22.3%
9	Peru	US	108,161	99,887	-7.7%
10	Bangladesh	EU	73,035	88,165	20.7%
n/a	All 50 EM	EU	2,501,236	2,583,475	3.3%
n/a	All 50 EM	US	2,369,754	2,223,115	-6.2%
n/a	All 50 EM	EU and US	4,870,990	4,806,590	-1.3%

Note: 2016* figures are forecasts

Source: Transport Intelligence

Air Freight Emerging Market to EU/US Top 5 Trade Lanes 2005-2016 Growth



Source: Transport Intelligence

In total, it is estimated that the Index's 50 emerging markets will export 3.3% more air freight to the EU in 2016 compared to 2015, but 6.2% less to the US.

Out of the 100 trade lanes going from the 50 emerging markets to the EU/US, the top 10 lanes are predicted to account for 70.9% of total air tonnage in 2016. China is by far the largest exporter, having comprised 44.4% of all emerging market air freight to the EU and 53.2% of air freight to the US in 2015. In a nutshell, China represents around half of emerging market air export tonnage to the US and EU.

China-US air freight looks set to endure a tough 2016 as volume is projected to decrease by 10.5%. Having displaced China-EU as the largest trade lane in 2015, it has now fallen back to second place as China-EU tonnage is anticipated to increase by 4.8%. For air freight to the US, the two largest product groups (machinery & machinery parts and electronics) have recorded volumes declines of 36.9% and 12.2% for January-August 2016 year-on-year. These two groups accounted for 29.4% and 28.2% respectively of total freight on this lane in 2015. Declines here were somewhat offset by improvement in sectors such as plastics & plastic articles (+13.9%), vehicles & vehicle parts (+11.4%) and furniture (+21.2%). For China-EU air freight, the two largest groups of electronics and machinery - which represented 25.4% and 23.2% of total tonnage in 2015 - have seen volume growth of 5.2% and 12.6% respectively for the year-to-date. Plastics & plastic articles (+21.6%), furniture (+13.8%) and vehicles & vehicle parts (+49.1%) are some other significant product groups which have reported substantial growth for the year so far.

Kenya-EU is now the only African trade lane in the top 10, as Ethiopia-EU tonnage for 2016 is anticipated to fall by 8.7% to 86,000 tonnes. Kenya-EU remains the third largest emerging market air export trade lane by tonnage, exceeding even India's trade with the EU, an economy which is 30 times larger. Tonnage is predicted to increase by 3.7% in 2016 to almost 209,000 tonnes. Two product groups are responsible for almost all of Kenya's air exports – flowers (73.0% in 2015) and vegetables (24.0% in 2015). For January-August 2016, exports of flowers to the EU have increased by 0.9% whereas for vegetables growth has been more dynamic at 7.1%. Kenya continues to interest major logistics providers. In November 2015, Panalpina announced that it would acquire a majority stake in Airflo – a Kenyan and Netherlands based forwarder specialised in handling flowers and vegetables. Panalpina claims the company is the second largest forwarder in Kenya. In February 2016, UPS expanded its alliance with its Kenyan contractor Freight in Time (FIT) by consolidating both its express and freight forwarding services through FIT. According to UPS, the local player has invested $9m in its operations and has a 5,000 sq m warehouse with six offices across the country. It has also invested in a new airside facility at the country's main airport in Nairobi to handle and process express operations. Finally, the same month saw BDP International state that it was studying the possibility of expanding in Kenya.

India's air freight exports to the EU (+2.3%) and US (+4.2%) are perhaps not growing as dynamically in 2016 as one would expect given the headlines of robust economic growth. Exports to the EU are being held back by negative growth in its second most important product group, machinery & machinery parts. For January-August 2016, volume is down by 6.8% year-on-year. The story is different for its largest export group, apparel, where tonnage has increased by 7.4% to almost 34,000 tonnes over the same period. Leather articles (+5.2% to 10,000 tonnes), vegetables (+13.9% to 9,000 tonnes) and vehicles & vehicle parts (+24.1% to 3,000 tonnes) have also recorded decent growth. To the US, the biggest export group is pharmaceuticals (29,000 tonnes in 2015). For the year-to-date, volumes have contracted by 2.1%, while machinery & machinery parts volume has fallen by 3.8%. On a positive note, apparel tonnage is up by 4.4% to 24,000 tonnes, while for electronics, volume has expanded by 12.1% to 5,000 tonnes.

Two trade lanes which are forecast rapid growth are Mexico-EU (+22.3%) and Bangladesh-EU (+20.7%). Mexico's projection is largely as a result of fruits tonnage more than doubling from around 8,000 tonnes in January-

August 2015 to nearly 18,000 tonnes in January-August 2016, though electronics (+6.9% to over 15,000 tonnes) and vegetables (+21.1% to almost 9,000 tonnes) have also recorded good increases. Bangladesh-EU tonnage growth is due almost exclusively to apparel tonnage increasing by 42.6% to nearly 56,000 tonnes for January-August 2016 year-on-year.

Turning to South America, there are mixed performances. Colombia-US air freight is anticipated to grow by 6.1%, whereas Chile-US and Peru-US are predicted drops of 3.4% and 7.7% respectively. For Colombia, around 90% of its export tonnage to the US is comprised of flowers. For January-August 2016, volume has improved by 5.1% year-on-year. For Chile, the dominant commodity is fish (over 80% of total tonnage in 2015). For the year-to-date, tonnage has slid by 1.7%. For Peru, vegetables account for almost 90% of total tonnage, and for January-August 2016, volumes have contracted by 16.5% year-on-year.

Air Freight Fastest Growing Trade Lanes – Emerging Market to EU/US (Index of Tons, 2005=100)

Rank	Origin	Destination	2015 Tons	2016* Tons	15-16 Growth	2013 Index	2014 Index	2015 Index	2016 Index*	2013-2016 CAGR	2005-2016 CAGR
1	Mexico	EU	82,986	101,467	22.3%	169	194	208	255	14.6%	8.9%
2	Bangladesh	EU	73,035	88,165	20.7%	222	162	198	239	2.5%	8.2%
3	Cambodia	EU	10,971	12,925	17.8%	300	344	316	372	7.4%	12.7%
4	Pakistan	EU	48,506	56,189	15.8%	121	112	101	117	-1.1%	1.4%
5	Brazil	US	42,666	47,376	11.0%	41	42	46	51	7.8%	-5.9%
6	Tanzania	EU	12,129	13,436	10.8%	128	120	105	117	-3.1%	1.4%
7	Ecuador	EU	26,554	29,244	10.1%	294	332	332	365	7.5%	12.5%
8	Peru	EU	38,227	41,630	8.9%	182	222	211	230	8.2%	7.9%
9	Brazil	EU	68,423	74,410	8.7%	99	142	108	118	5.9%	1.5%
10	Colombia	US	156,059	165,640	6.1%	125	123	117	124	-0.2%	2.0%
11	UAE	EU	16,569	17,557	6.0%	104	114	109	116	3.6%	1.3%
12	Turkey	EU	70,069	74,084	5.7%	111	117	147	156	12.1%	4.1%
13	Thailand	EU	53,631	56,568	5.5%	78	89	76	81	1.0%	-1.9%
14	Mexico	US	50,406	52,894	4.9%	86	82	78	82	-1.6%	-1.8%
15	China	EU	1,111,507	1,164,740	4.8%	147	173	146	153	1.5%	4.0%
16	Sri Lanka	US	22,826	23,833	4.4%	104	102	140	147	12.0%	3.5%
17	India	US	124,457	129,693	4.2%	111	120	128	134	6.3%	2.7%
18	Kenya	EU	201,390	208,768	3.7%	280	294	302	313	3.7%	10.9%
19	Vietnam	EU	52,894	54,730	3.5%	220	236	241	250	4.4%	8.7%
20	Malaysia	EU	38,658	39,599	2.4%	124	106	99	101	-6.4%	0.1%
21	India	EU	180,069	184,184	2.3%	130	137	129	132	0.7%	2.6%
22	Ecuador	US	54,389	55,492	2.0%	96	91	104	106	3.3%	0.5%
23	Uganda	EU	29,929	30,462	1.8%	150	140	141	144	-1.4%	3.4%
24	Pakistan	US	13,993	14,135	1.0%	62	61	57	58	-2.5%	-4.9%
25	Turkey	US	26,505	26,524	0.1%	101	126	150	150	14.0%	3.8%
n/a	All 50 EM	EU	2,501,236	2,583,475	3.3%	123	136	125	129	1.6%	2.4%
n/a	All 50 EM	US	2,369,754	2,223,115	-6.2%	110	121	127	119	2.6%	1.6%
n/a	All 50 EM	EU and US	4,870,990	4,806,590	-1.3%	117	128	126	124	2.0%	2.0%

Note: 2016* figures are forecasts

Source: Transport Intelligence

Out of the 44 emerging market air freight trade lanes to the EU/US for which volumes exceeded 10,000 tonnes, only 25 are expected to increase their tonnage in 2016.

As stated in the examination of the 10 largest emerging market air export trade lanes, Mexico and Bangladesh are both expected to record tonnage growth rates in excess of 20% for 2016, mainly down to higher fruits and apparel tonnage respectively. For Mexico, the growth appears more impressive as it marks a continuation of robust growth over the medium-term: volumes have recorded decent gains every year since 2013. This is true of the long run too, from 2005 to 2016, volume has grown at a compound annual growth rate (CAGR) of 8.9%. For Bangladesh, this long run story holds too, its CAGR on the same basis is 8.2%. But it is worth highlighting that its volumes peaked in 2013 at just over 80,000, then collapsed to around 60,000 in 2014, before then recovering in 2015 and 2016. This stunted trajectory is perhaps in part a result of the Rana Plaza and Mirpur textile factory tragedies of 2013.

Five other trade lanes reported double digit growth in 2016 – Cambodia-EU, Pakistan-EU, Brazil-US, Tanzania-EU and Ecuador-EU. Of those, the largest lanes are Pakistan-EU and Brazil-US, and while they achieved strong growth in 2016, over the long-term, their growth is far less impressive (2005 to 2016 CAGRs of 1.4% and -5.9% respectively). Tanzania-EU is a smaller lane with a similar story (CAGR of 1.4%). Cambodia-EU has been a dynamic market in recent years, its growth has taken off since 2011, albeit with the odd bump in the road. Volumes have grown from around 3,000 tonnes in 2011 to an estimated 13,000 tonnes in 2016. Almost 90% of volume is apparel. Ecuador-EU has recorded good growth over both the medium and long-term, with its volumes expected to reach over 29,000 tonnes in 2016. Over 90% of its volume is flowers.

Outside the double-digit growth club, Peru-EU was the next best performer with tonnage forecast to expand by 8.9% in 2016. It has also recorded robust growth over the medium-term (13-16 CAGR of 8.2%) as well as the longer term (05-16 CAGR of 7.9%). The core driver of growth is the agricultural sector: vegetables and fruits accounted for around 65% and 25% of total tonnage respectively in 2015.

Turkey is an interesting air export market for both the EU and US. The destinations have in common that they have experienced moderate growth over the long run, but much more robust growth over the last three years (13-16 CAGRs of 12.1% and 14.0% respectively). To the US, the most important export is apparel, which has grown by 32.0% year-on-year for January-August 2016, though declines in fish (-18.4%) and furniture (-86.4%) are holding overall growth back. To the EU, apparel is also the most important commodity by tonnage, and has increased by 7.0% year-on-year, with chemicals (+24.1% to over 9,000 tonnes) also performing well. Lower machinery & machinery parts (-45.5% to 3,000 tonnes) shipments are stunting growth.

Sri Lanka-US is a trade lane which struggled for growth until recently. In 2005, volumes were around 16,000 tonnes. It recorded figures lower than that in most of the intervening period until around 2013 when growth picked up, and then volumes really bounced in 2015 to nearly 23,000 tonnes. Almost 80% of its tonnage in 2015 was apparel, with fish accounting for 15%. Although apparel exports fell by 1.6% year-on-year for January-August 2016, fish exports increased by 43.9%. Sri Lanka has interested a number of major 3PLs in recent years. The likes of APL Logistics and DB Schenker developed their presence in the country in 2015 by establishing a new 100,000 sq ft regional consolidation hub and forming a new operational partnership with conglomerate Aitken Spence respectively.

Vietnam-EU is expected to grow only moderately in 2016 (+3.5%), though its long run performance is healthier (05-16 CAGR of 8.7%). Its exports of electronics and machinery & machinery parts look to be struggling this year, but its fashion & textiles sector appears to be much more dynamic.

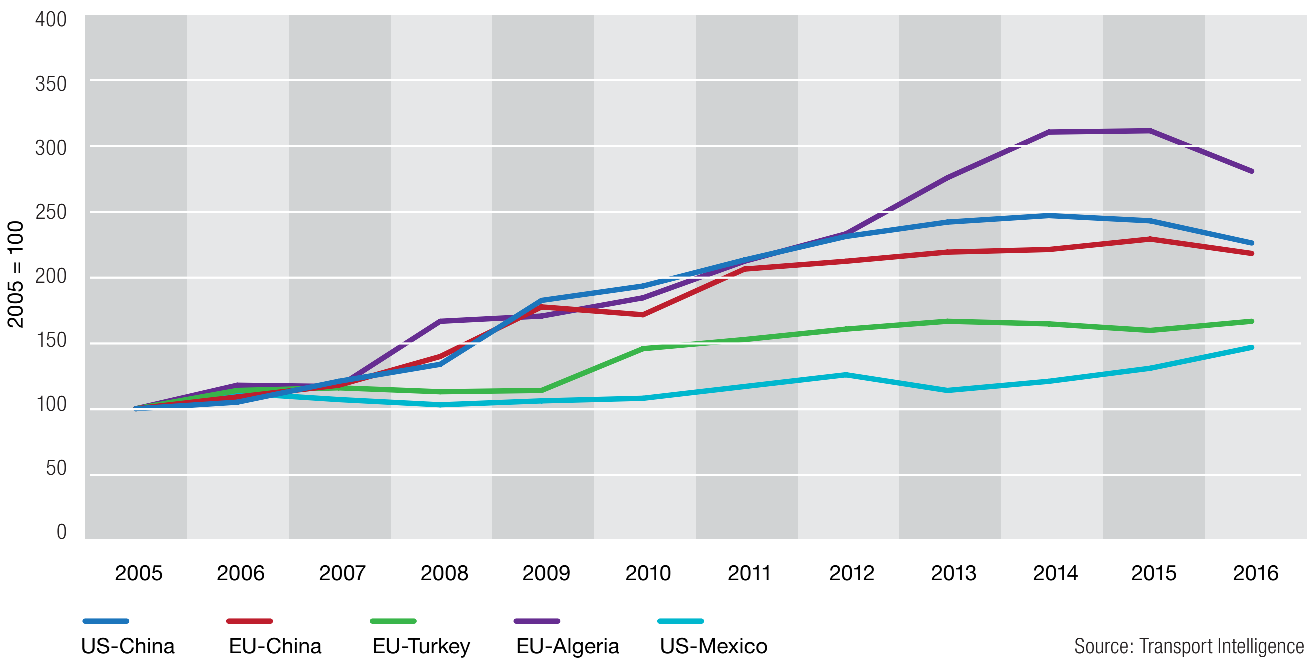
Sea Freight Top 10 Trade Lanes – EU/US to Emerging Market

Rank	Origin	Destination	2015 Tons	2016* Tons	15-16 Growth
1	US	China	82,255,938	76,389,887	-7.1%
2	EU	China	40,169,830	38,234,238	-4.8%
3	EU	Turkey	29,988,335	31,360,587	4.6%
4	EU	Algeria	23,520,821	21,215,860	-9.8%
5	US	Mexico	16,026,639	17,968,782	12.1%
6	EU	Saudi Arabia	15,738,231	17,637,021	12.1%
7	EU	Morocco	11,243,177	14,157,753	25.9%
8	EU	Egypt	14,577,968	13,191,263	-9.5%
9	US	Brazil	10,261,710	11,459,874	11.7%
10	EU	India	9,716,481	10,639,501	9.5%
n/a	EU	All 50 EM	239,118,834	240,907,367	0.7%
n/a	US	All 50 EM	193,778,564	199,628,287	3.0%
n/a	EU and US	All 50 EM	432,897,398	440,535,653	1.8%

Note: 2016* figures are forecasts

Source: Transport Intelligence

Sea Freight EU/US to Emerging Market Top 5 Trade Lanes 2005-2016 Growth



Source: Transport Intelligence

Overall, sea freight tonnage to emerging markets from the EU and US is predicted to expand by 1.8% in 2016. EU tonnage is forecast to increase by 0.7%, while for the US the figure is better at 3.0%. The anaemic growth can largely be attributed to China's woes alone.

Starting with the largest lane, US-China tonnage is expected to shrink by 7.1% in 2016. For January-to-August 2016, exports of cereals and food industry residues, waste & animal feed have suffered declines of 30.8% and 56.9% respectively, although soybeans growth of 38.4% has offset this to an extent. Even in substantial non-bulk sectors like vehicles & vehicle parts and machinery & machinery parts, volumes were down by 8.6% and 27.1% respectively. For EU-China, the story is quite similar. Overall volume is projected to contract by 4.8% in 2016, driven by a collapse in cereal volumes, and once again vehicles & vehicle parts (-4.6%) and machinery & machinery parts (-16.9%) tonnage is struggling for the year-to-date.

Excluding the impact of China, EU and US export tonnage to the remaining 49 emerging markets would have increased by 1.9% and 10.5% respectively. Cumulatively, EU and US tonnage would have grown by 5.0%.

Five trade lanes in relatively close geographical proximity to the EU feature in the top 10. For EU-Turkey, tonnage growth of 4.6% is forecast for 2016, driven by January-August 2016 growth of 6.9% for iron & steel, which accounted for over a third of volume alone in 2015. For EU-Algeria, 2016 growth is expected to be -9.8%. The year-to-date has seen its major products groups such as cereals (-2.6%) salt, sulphur, earths & stone (-12.4%) and iron & steel (-18.9%) suffer significant tonnage declines. EU-Saudi Arabia tonnage growth of 12.1% for 2016 is largely predicated on cereals volume growth of 38.8% for the year-to-date. Cereals account for over a third of the lane's total tonnage. Major containerised freight commodity groupings such as machinery and vehicles & vehicle parts have not fared very well, with volume slumping by more than 30% for both for the year-to-date.

EU-Morocco sea freight is also being boosted by cereals, though inorganic chemicals also look to be a strong source of growth in 2016. Unlike EU-Saudi Arabia, the major containerised commodity groupings of machinery and vehicles & vehicle parts have jumped by 15.6% and 30.5% respectively for the year-to-date. Morocco in particular looks to be an upcoming location for the automotive sector. PSA Peugeot-Citroen has revealed plans to build a €557m production plant with operations beginning in 2019, with initial capacity of 90,000 engines and vehicles, possibly rising to 200,000. Engine parts manufacturer Linamar has also pledged to build a $280m engine parts plant (which will supply the PSA plant), while fellow parts manufacturer Delphi will launch a new factory to make electrical distribution systems as well as an R&D centre. Elsewhere in North Africa, a collapse in cereals tonnage is to blame for EU-Egypt volume growth of -9.5% in 2016, though vegetables and fruits exports look to be dynamic groups with tonnage rising by 102.9% and 16.7% for the year-to-date respectively.

The final trade lane involving the EU in the top 10 is EU-India. Tonnage is predicted to increase by 9.5% in 2016. Iron & steel, which accounts for around a quarter of tonnage, has grown by 18.2% for the year-to-date. Vegetables tonnage has exploded from just over 50,000 tonnes for January-August 2015 to almost 300,000 tonnages for January-August 2016.

US-Mexico and US-Brazil are the remaining trade lanes in the top 10, and they both are predicted double digit growth (12.1% and 11.7%). US-Mexico growth is largely being driven by higher volumes of cereals and organic chemicals (+8.0% and +15.7% for the year-to-date). For Brazil, inorganic chemicals (+19.5% for the year-to-date) are behind the growth.

Sea Freight Fastest Growing Trade Lanes – EU/US to Emerging Market (Index of Tons, 2005=100)

Rank	Origin	Destination	2015 Tons	2016* Tons	15-16 Growth	2013 Index	2014 Index	2015 Index	2016 Index*	2013-2016 CAGR	2005-2016 CAGR
1	US	Algeria	606,448	1,377,695	127.2%	31	37	42	96	45.2%	-0.4%
2	US	South Africa	890,317	1,456,148	63.6%	115	99	102	166	13.0%	4.7%
3	EU	Vietnam	2,730,711	4,441,480	62.6%	336	394	419	681	26.6%	19.1%
4	US	Morocco	1,287,457	2,012,024	56.3%	93	103	102	160	19.9%	4.4%
5	EU	Ethiopia	916,524	1,343,777	46.6%	198	304	721	1058	74.9%	23.9%
6	US	Vietnam	4,202,789	6,131,796	45.9%	655	795	748	1091	18.6%	24.3%
7	US	Pakistan	1,234,849	1,713,468	38.8%	143	139	216	300	28.0%	10.5%
8	US	Indonesia	5,350,845	7,184,218	34.3%	177	187	153	206	5.1%	6.8%
9	EU	Pakistan	2,465,845	3,257,268	32.1%	93	108	109	144	15.7%	3.4%
10	EU	Kenya	1,184,064	1,558,688	31.6%	172	195	319	419	34.5%	13.9%
11	EU	Morocco	11,243,177	14,157,753	25.9%	145	174	166	209	12.9%	6.9%
12	US	Peru	4,677,001	5,713,159	22.2%	235	385	343	419	21.3%	13.9%
13	EU	Jordan	2,271,138	2,742,489	20.8%	163	188	188	227	11.5%	7.7%
14	US	Philippines	5,200,109	6,239,439	20.0%	143	161	158	189	9.9%	6.0%
15	US	UAE	2,254,512	2,612,039	15.9%	297	284	253	293	-0.6%	10.3%
16	US	Chile	3,275,287	3,746,627	14.4%	269	224	228	261	-0.9%	9.1%
17	EU	Malaysia	2,289,930	2,603,779	13.7%	122	113	94	107	-4.3%	0.6%
18	EU	Tunisia	4,134,291	4,660,873	12.7%	136	116	119	134	-0.6%	2.7%
19	US	Mexico	16,026,639	17,968,782	12.1%	114	121	131	147	8.9%	3.6%
20	EU	Saudi Arabia	15,738,231	17,637,021	12.1%	172	149	175	197	4.6%	6.3%
21	US	Brazil	10,261,710	11,459,874	11.7%	408	373	290	324	-7.4%	11.3%
22	US	India	6,568,693	7,328,074	11.6%	214	228	235	262	6.9%	9.1%
23	EU	Ghana	3,044,002	3,353,174	10.2%	221	227	276	304	11.3%	10.6%
24	EU	Indonesia	3,135,958	3,440,086	9.7%	122	117	103	113	-2.4%	1.1%
25	EU	India	9,716,481	10,639,501	9.5%	116	129	139	152	9.3%	3.9%
n/a	EU	All 50 EM	239,118,834	240,907,367	0.7%	175	179	177	178	0.6%	5.4%
n/a	US	All 50 EM	193,778,564	199,628,287	3.0%	186	194	185	191	1.0%	6.1%
n/a	EU and US	All 50 EM	432,897,398	440,535,653	1.8%	179	185	180	184	0.8%	5.7%

Note: 2016* figures are forecasts

Source: Transport Intelligence

Out of the 60 trade lanes with volumes of at least 1m tonnes, 38 are expected to record higher volumes in 2016 than in 2015. 23 are predicted growth in excess of 10%, while 14 are expected to have growth of over 20%.

For almost all the top 25 fastest growing trade lanes, growth is overwhelmingly driven by higher volumes of cereal crops, with a few exceptions.

For EU origin trade lanes, all except for EU-Pakistan (iron & steel), EU-Malaysia (plastics & plastic articles, paper and wood & wood articles) and EU-Ghana (salt, sulphur, earths & stone) are seeing their growth being driven by higher cereals tonnage.

For the US, some quasi-exceptions are US-Vietnam, with higher tonnage of soybeans, food industry residues, cotton and wood & wood articles contributing to its 2016 growth projection of 45.9%, though cereals tonnage also grew very strongly. Another is Pakistan, where iron & steel is driving significant growth alongside cereals, as is Indonesia (soybeans and food industry residues, alongside cereals).

The UAE is a genuine exception with cereals playing very little role, as soybeans and inorganic chemicals are behind its 2016 prediction of 15.9% growth. For US-India, cereals play almost no role in its export profile. For January-August 2016, wood pulp (+8.8%), iron & steel (+21.0%), organic chemicals (+6.5%), inorganic chemicals (+88.5%), plastics & plastic articles (+26.7%) and beverages (+151.2%) are driving much of its expected growth of 11.6% for 2016.

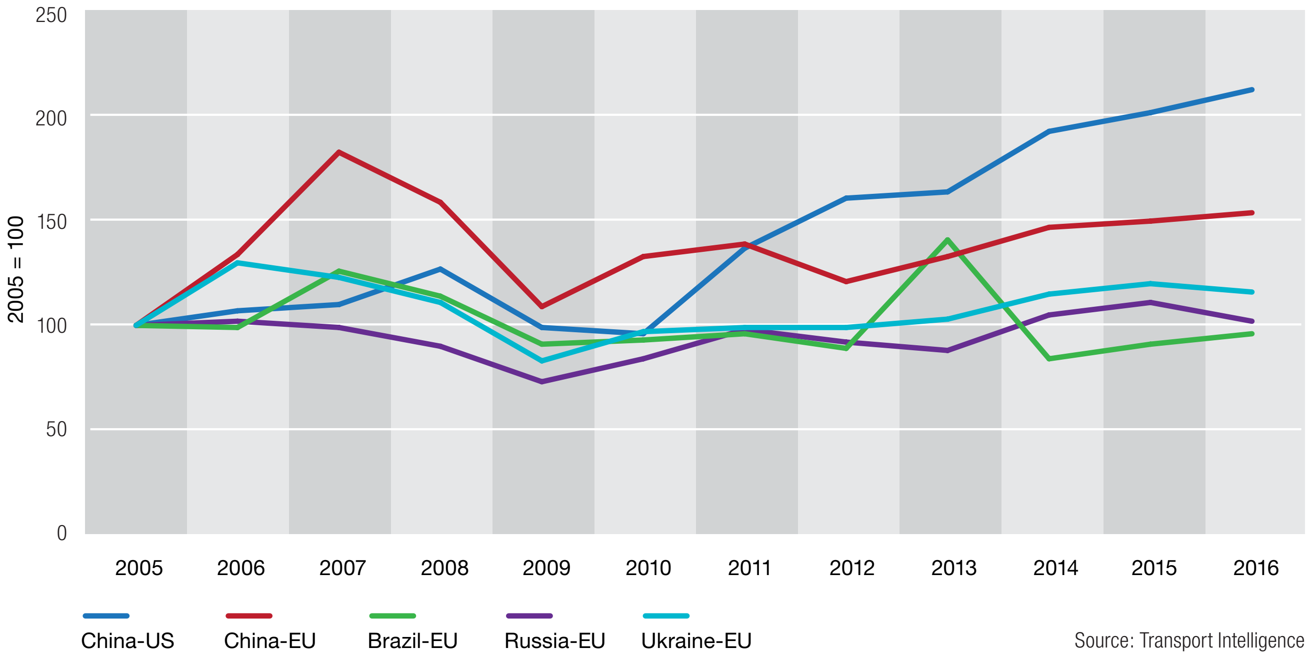
Sea Freight Top 10 Trade Lanes – Emerging Market to EU/US

Rank	Origin	Destination	2015 Tons	2016* Tons	15-16 Growth
1	China	US	65,427,160	63,438,316	-3.0%
2	China	EU	53,136,391	54,883,827	3.3%
3	Brazil	EU	30,056,097	31,557,772	5.0%
4	Russia	EU	30,874,150	28,530,118	-7.6%
5	Ukraine	EU	22,426,823	23,650,964	5.5%
6	Turkey	EU	17,912,817	19,057,976	6.4%
7	Mexico	US	19,097,837	16,597,859	-13.1%
8	Argentina	EU	13,971,133	15,795,099	13.1%
9	Brazil	US	16,386,899	15,266,341	-6.8%
10	South Africa	EU	10,612,381	11,343,973	6.9%
n/a	All 50 EM	EU	271,484,788	276,242,042	1.8%
n/a	All 50 EM	US	178,127,702	170,190,728	-4.5%
n/a	All 50 EM	EU and US	449,612,490	446,432,770	-0.7%

Note: 2016* figures are forecasts

Source: Transport Intelligence

Sea Freight Emerging Market to EU/US Top 5 Trade Lanes 2005-2016 Growth



Source: Transport Intelligence

Out of the 100 trade lanes going from the 50 emerging markets to the EU and US, the top 10 are forecast to constitute 62.7% of total tonnage in 2016. China alone will represent 26.5% of tonnage. However this disguises China's greater importance to the US compared to Europe. China-US tonnage represents 37.3% of all tonnage to the US, whereas for the EU the corresponding figure is just 19.9%.

Another salient feature of emerging market sea freight exports is that they are much more diversified compared to imports, which are overwhelmingly comprised of agricultural goods. Such variation holds generally across the board for emerging market exports, but China is perhaps the best example of it.

In 2015, the top 10 product groups by tonnage for China-US sea freight were furniture (7.0m), machinery & machinery parts (5.7m), electronics (5.0m), iron & steel articles (3.9m), plastics & plastic articles (3.6m), salt, sulphur, earths & stone (3.2m), vehicles & vehicle parts (2.8m), toys, games & sports equipment (2.8m), wood & wood articles (2.3m) and ceramic products (2.2m). Moreover, 21 different product groups had volumes in excess of 1m tonnes.

For 2016, China-US export tonnage is expected to fall back by 3.0%. For January-August 2016, there are few major product groups which have recorded strong tonnage growth year-on-year. The best performances have come from furniture (+3.3%) and toys, games & sports equipment (+4.8%). Most other major commodity groups have recorded low single digit contractions.

For China-EU sea freight, the top 10 product groups by tonnage in 2015 were: iron & steel (7.5m), machinery & machinery parts (5.1m), electronics (4.5m), furniture (3.5m), iron & steel articles (3.2m), stone articles (2.5m), plastics & plastic articles (2.2m), wood & wood articles (2.0m), organic chemicals (1.6m) and toys, games & sports equipment (1.4m). In total, export volumes in 17 different product groups were above 1m tonnes.

Overall, China-EU tonnage is anticipated to rise by 3.3% in 2016. For January-August 2016, year-on-year export growth has been solid if not spectacular for many major commodity groups that necessitate containerised sea freight: machinery & machinery parts (+3.2%), furniture (+4.3%), toys, games & sports equipment (+5.3%) and vehicles & vehicle parts (+8.9%). The one major group that is struggling is electronics (-16.1%).

The only other emerging market to appear twice in the top 10 is Brazil. Exports to the EU are forecast to expand by 5.0% in 2016, while the corresponding figure for the US is -6.8%. For January-August 2016, Brazil-EU growth is primarily being driven by high soybeans and cereals tonnage, whereas for Brazil-US, weaker iron & steel volumes are dragging down growth.

Elsewhere, the two CIS markets in the top 10 – Russia-EU and Ukraine-EU – are forecast contrasting growth of -7.6% and 5.5% respectively in 2016. For January-August 2016, year-over-year growth of Russian exports of iron & steel (-5.4%) and wood & wood articles (-24.6%) has been negative. On the other hand, Ukrainian exports of cereals (+4.1%) and salt, sulphur, earths & stone (+18.7%) are driving its expected annual improvement.

Turkey-EU and South Africa-EU are projected similar growth rates of 6.4% and 6.9% for 2016. While bulk commodities are still most important for Turkey-EU sea freight, vehicles & vehicle parts (8.3% of total tonnage in 2015) and machinery & machinery parts (3.6% of tonnage) are relatively more important compared to most other lanes. Volumes for the year-to-date are up by 4.0% and 7.7% respectively. Turkey has long been considered an intriguing near sourcing location for manufacturers looking to export to Europe, not least among automotive manufacturers, who continue to develop their presence there. At the beginning of 2016, around $1.2bn of investment was at the ready for Turkey, with five vehicle manufacturers – Fiat, Renault, Toyota, Hyundai and Honda – all set to ramp up operations. The medium-term outlook for the country's manufacturing sector appears to be robust. The outlook for South Africa is less clear, though its 2016 performance was encouraging too. Its sea freight export profile is largely interesting to logistics providers because it exports vast quantities of fruit (1.2m tonnes or over 10% of total tonnage in 2015, 1.8% year-to-date growth in 2016), mainly bananas. Other sectors of interest include vehicles & vehicle parts exports, which amounted to over 200,000 tonnes in 2015, and they have increased by 28% for the year-to-date.

The two remaining Latin American trades lanes in the top 10 are predicted contrasting results. Mexico-US is expected to see tonnage slide by 13.1%, while Argentina-EU volume is predicted to increase by 13.1%. The former's woes are primarily on account of salt, sulphur, earths & stone tonnage contracting by 14.3%. This group comprises well over half of total tonnage. Even in relatively important non-bulk sectors like vehicles & vehicle parts though, tonnage is still down by 5.9% for January-August 2016 year-on-year. Argentina's double digit growth is largely as a result of 17.8% year-to-date growth in food industry residues exports.

Sea Freight Fastest Growing Trade Lanes - Emerging Market to EU/US (Index of Tons, 2005=100)

Rank	Origin	Destination	2015 Tons	2016* Tons	15-16 Growth	2013 Index	2014 Index	2015 Index	2016 Index*	2013-2016 CAGR	2005-2016 CAGR
1	Egypt	EU	4,201,865	5,568,236	32.5%	95	79	61	81	-5.1%	-1.9%
2	Vietnam	US	4,260,111	5,417,519	27.2%	291	319	356	453	15.9%	14.7%
3	Saudi Arabia	US	1,350,184	1,657,024	22.7%	90	99	102	126	11.6%	2.1%
4	Uruguay	EU	2,707,486	3,233,356	19.4%	144	114	179	214	14.0%	7.2%
5	Qatar	US	1,558,177	1,843,064	18.3%	148	194	196	232	16.2%	8.0%
6	Turkey	US	5,504,479	6,501,930	18.1%	81	117	151	179	30.3%	5.4%
7	UAE	US	1,477,293	1,744,130	18.1%	124	176	220	260	28.0%	9.1%
8	Mexico	EU	2,535,476	2,966,653	17.0%	125	173	127	148	5.9%	3.6%
9	Argentina	US	2,296,173	2,674,311	16.5%	123	82	111	130	1.7%	2.4%
10	Peru	EU	2,413,937	2,767,048	14.6%	110	124	122	140	8.4%	3.1%
11	Argentina	EU	13,971,133	15,795,099	13.1%	69	69	77	87	8.1%	-1.3%
12	Algeria	EU	6,301,851	7,058,387	12.0%	47	179	190	213	65.0%	7.1%
13	Thailand	EU	2,901,157	3,236,439	11.6%	90	94	86	96	2.2%	-0.4%
14	Thailand	US	3,740,832	4,105,623	9.8%	48	50	54	60	7.7%	-4.6%
15	Ukraine	US	1,107,201	1,214,175	9.7%	52	43	47	52	-0.4%	-5.8%
16	Nigeria	EU	1,381,516	1,502,909	8.8%	144	323	417	454	46.7%	14.7%
17	Bangladesh	EU	999,605	1,079,395	8.0%	160	181	198	214	10.2%	7.2%
18	Indonesia	US	4,583,754	4,914,349	7.2%	93	96	105	113	6.7%	1.1%
19	South Africa	EU	10,612,381	11,343,973	6.9%	92	89	81	87	-2.0%	-1.3%
20	Egypt	US	1,133,846	1,207,741	6.5%	55	72	72	77	11.5%	-2.4%
21	Turkey	EU	17,912,817	19,057,976	6.4%	86	90	95	101	5.6%	0.1%
22	Philippines	US	1,343,156	1,423,663	6.0%	82	79	77	82	-0.1%	-1.8%
23	Vietnam	EU	3,479,975	3,671,879	5.5%	160	194	197	208	9.1%	6.9%
24	Ukraine	EU	22,426,823	23,650,964	5.5%	164	193	202	213	9.0%	7.1%
25	Malaysia	US	3,152,501	3,317,031	5.2%	101	100	101	107	1.7%	0.6%
n/a	All 50 EM	EU	271,484,788	276,242,042	1.8%	107	110	114	116	2.5%	1.3%
n/a	All 50 EM	US	178,127,702	170,190,728	-4.5%	93	107	110	105	4.1%	0.4%
n/a	All 50 EM	EU and US	449,612,490	446,432,770	-0.7%	101	109	112	111	3.1%	1.0%

Note: 2016* figures are forecasts

Source: Transport Intelligence

Of the 100 possible trade lanes from the 50 emerging markets to the US/EU, only 54 have volumes in excess of 1m tonnes. Of these, 36 are expected to increase their volume in 2016.

Among the fastest growers, Vietnam-US stands out both for its rapid expected growth in 2016 (+27.2%), but also for its excellent medium and long-term performance (2013-2016 CAGR of 15.9%, 2005-2016 CAGR of 14.7%). In common with China, furniture is its most important export commodity (1.2m tonnes in 2015), accounting for over a quarter of its total volume. For January-August 2016, growth of 6.3% has been recorded. Since 2015, the US has imposed import tariffs on Chinese furniture, leading many Chinese manufacturers to invest in neighbouring Vietnam which faces no such duties. There are growing concerns that such manoeuvring could put Vietnam firmly on the radar of US anti-dumping investigators, though TPP negotiations obviously complicate the matter. Future growth will obviously be significantly influenced by the outcome of TPP. Other important sectors which have achieved meaningful growth in the year so far include apparel (+7.7%), footwear (+24.2%), coffee (+41.7%), fish (+15.8%) and electronics (+55.9%). Iron & steel tonnage has rocketed from 33,000 tonnes in January-August 2015 to nearly 500,000 tonnes in January-August 2016. Vietnam-EU is expected more moderate growth of 5.5% in 2016, though coffee tonnage (+10.5%) has increased significantly while like to the US, electronics tonnage has grown sharply (+68.4%).

Other trade lanes which fit the mould of strong growth in 2016 and over the long run (more than 5% for both measures) are Uruguay-EU, Qatar-US, Turkey-US, UAE-US, Algeria-EU, Nigeria-EU and Bangladesh-EU.

Taking the EU lanes first, for Uruguay-EU, tonnage growth of 19.4% is expected for 2016. Like last year, exports of wood pulp, soybeans and wood & wood articles will drive the increase. For Algeria-EU, overall growth of 12.0% is mainly on account of fertilisers growth of 18.2% for January-August 2016 year-on-year. Nigeria's growth figure of 8.8% appears somewhat dubious, as it is largely thanks to year-to-date growth of 19.9% of "other products". It is not clear what this includes. Lastly, Bangladesh-EU's exports are unsurprisingly dominated by the fashion & textiles sector (also the case with air freight). Over three quarters of tonnage in 2015 can be attributed to apparel alone, with year-to-date tonnage up by 6.8% year-on-year.

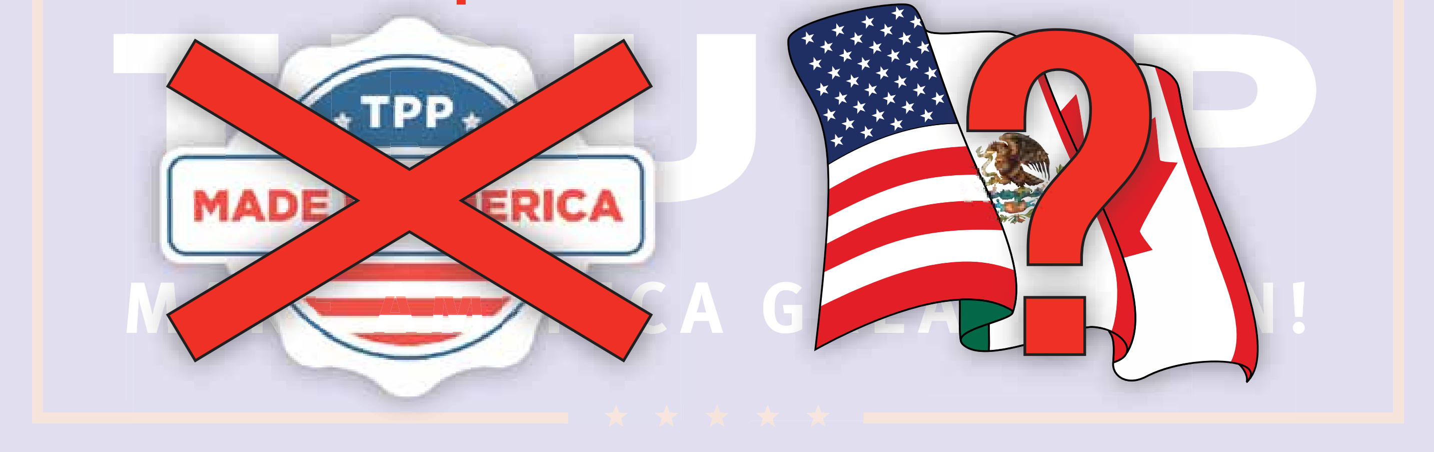
For high growth US lanes, Qatar-US is forecast an increase in volume of 18.3% in 2016. Volume on this lane is dominated by fertilisers, representing over 90% of tonnage, and for January-August 2016, tonnage has expanded by 12.6%. The story of dependence on fertilisers is similar for the UAE, although not quite to the same extent (56.9% of tonnage in 2015). Aluminium & aluminium articles are comparatively more important however, accounting for around 20% of tonnage. With growth of 74.1% for the year-to-date, this has offset the fall in fertilisers tonnage (-8.6%) over the same period. Finally, Turkey-US freight is similarly dependent on bulk goods, though of a different kind. Iron & steel and stone articles are its largest export groups, but both have experienced double digit declines for the year-to-date. Offsetting this is growth in salt, sulphur, earths & stone, which has more than doubled in the year-to-date.

2015
TRADE VOLUME
LOW OR NO GROWTH

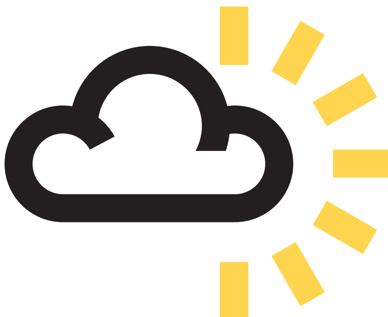
2016
TRADE VOLUME
NEGATIVE GROWTH

IMF trade forecasts heading down too

What will Trump do?



Outlook has worsened



Outlook has improved

FASTEST GROWING TRADE LANES IN 2016

AIR FREIGHT EU/US TO EMERGING MARKETS

37.2% EU-Vietnam

31.0% EU-Pakistan

18.7% EU-Colombia

AIR FREIGHT EMERGING MARKETS TO EU/US

22.3% Mexico-EU

20.7% Bangladesh-EU

17.8% Cambodia-EU

SEA FREIGHT EU/US TO EMERGING MARKETS

127.2% US-Algeria

63.6% US-South Africa

62.6% EU-Vietnam

SEA FREIGHT EMERGING MARKETS TO EU/US

32.5% Egypt-EU

27.2% Vietnam-US

22.7% Saudi Arabia -US

LONG TERM SUCCESSES – 2005 TO 2016 CAGRS

AIR FREIGHT EU/US TO EMERGING MARKETS

17.9% US-Vietnam

15.2% EU-Vietnam

AIR FREIGHT EMERGING MARKETS TO EU/US

12.7% Cambodia-EU

12.5% Ecuador-EU

SEA FREIGHT EU/US TO EMERGING MARKETS

24.3% US-Vietnam

23.9% EU-Ethiopia

SEA FREIGHT EMERGING MARKETS TO EU/US

14.7% Vietnam-US

14.7% Nigeria-EU

The 2017 Agility Emerging Markets Logistics Index Survey

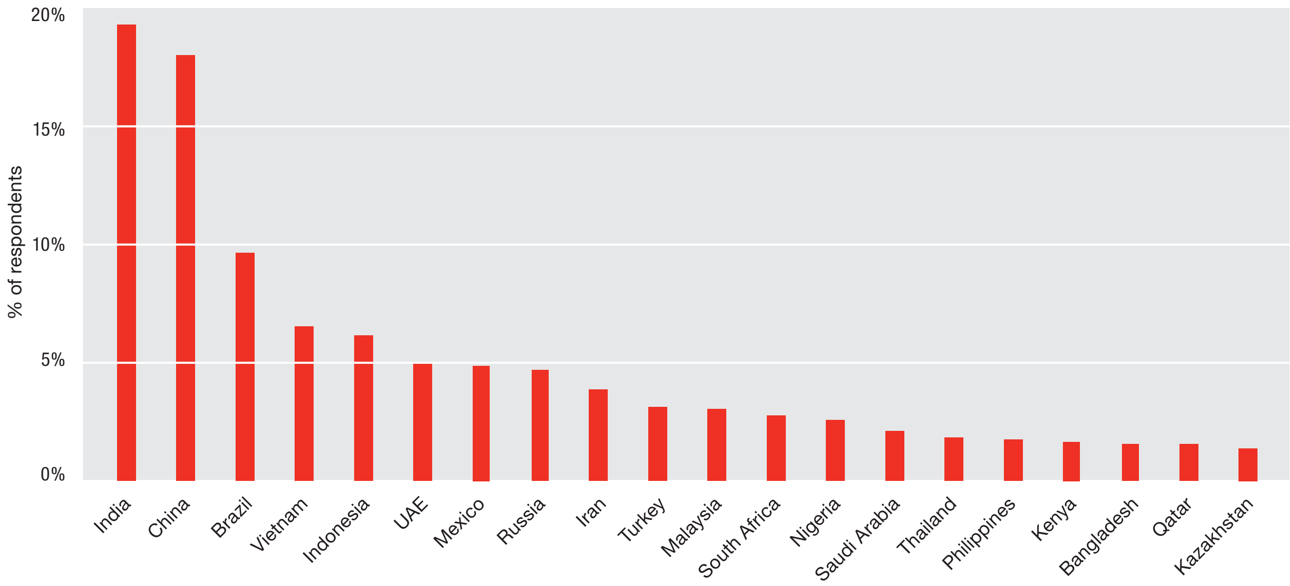
Seven

To examine the potential of the world's most promising emerging logistics markets and to measure the impacts of the trends seen across the global economy on the development and emergence of these markets, Transport Intelligence undertook a survey of logistics industry professionals between August and November 2016.

Participants from a range of logistics markets and vertical sectors took part, offering insight and opinion from their exposure to emerging markets. Responses from 801 industry professionals are used in this, the eighth annual edition of the Agility Emerging Markets Logistics Index Survey.

Perceived Major Logistics Markets of the Future

Which of the following countries do you believe have the most potential to grow as logistics markets in the next five years? Please rank.



Source: Transport Intelligence

Country	2017	2016	Change
India	1	1	-
China	2	2	-
Brazil	3	3	-
Vietnam	4	5	up 1
Indonesia	5	4	down 1
UAE	6	7	up 1
Mexico	7	6	down 1
Russia	8	8	-
Iran	9	15	up 6
Turkey	10	11	up 1
Malaysia	11	10	down 1
South Africa	12	9	down 3
Nigeria	13	12	down 1
Saudi Arabia	14	13	down 1
Thailand	15	14	down 1
Philippines	16	17	up 1
Kenya	17	20	up 3
Bangladesh	18	18	-
Qatar	19	16	down 3
Kazakhstan	20	22	up 2

Source: Transport Intelligence

Survey respondents were asked to rank the five emerging markets they viewed as the most likely to become major logistics markets over the next five years. A score was calculated in order to rank the markets – a first preference was awarded five points, a second preference four points, and so on down to a single point for the fifth preference. Using this method, survey respondents indicated their belief that India remains the emerging logistics market with the most potential for LSPs.

There was continuity in the top spots between 2016 and 2017, with a year of strong growth and improvements to its business environment that unlocked opportunity for LSPs helping India retain its advantage over China. Respondents appeared to show faith that the Modi administration is delivering on its reforms promise, while indicating the continued turbulence in China has eroded some of the potential for logistics providers in the market. Other factors contributed to China's lessening appeal, such as rising labour costs which make it a less attractive low cost manufacturing location, but the overwhelming suggestion from survey respondents is that, together, India and China present by far the most compelling opportunities to LSPs.

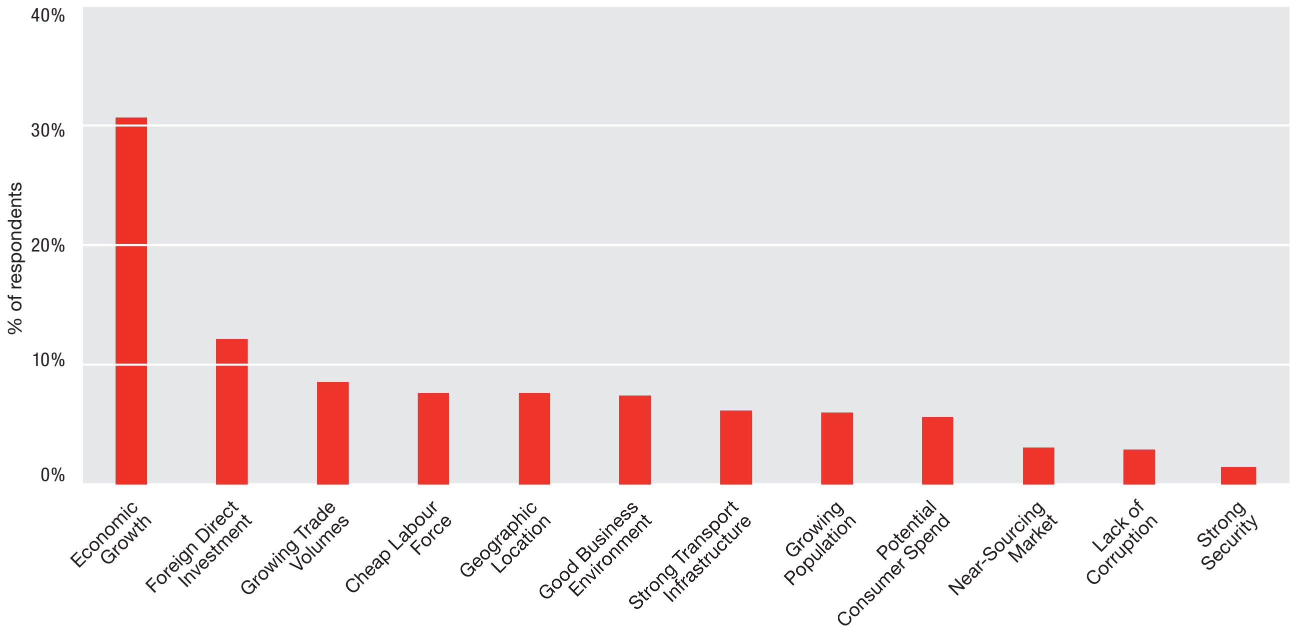
Brazil managed to retain its 3rd ranking in the list of emerging logistics markets with the most potential despite a less than favourable economic situation in the country. Respondents continue to show faith in the market's sizeable middle class and its well-developed agriculture, mining, manufacturing and service sectors. It may also be the case that, against a challenging overall backdrop, specific opportunities present themselves, including in high value markets like pharmaceuticals which has shown solid growth in Sao Paulo, for example. Additionally, an optimistic reading of the result suggests that survey respondents have faith in the new administration of President Michel Temer to fix the country's problems.

A number of movements took place across the ranking this year, with Vietnam and Turkey each rising one position, while the UAE continued its gradual upward movement to claim 6th. South Africa and Qatar were amongst the major losers, with each dropping three positions. South Africa's fall in the data-driven Index is reflected here as fewer respondents showed faith in the market as a source of future growth, likely as a result of domestic issues that have hit business confidence in logistics-related sectors such as mining. Elsewhere in Africa, Kenya performed well to become the 17th highest rated future logistics market, reflecting its position as a key air freight market for the export of commodities like flowers and vegetables.

The most significant move in the rankings, though, was Iran which rose six positions to claim 9th. Over the last two editions of the Agility Emerging Markets Logistics Index Survey, Iran has risen 21 positions in this ranking thanks to its strengthening ties with the global economy. Iran's sizeable economy and population, which has a relatively high amount of spending power, are almost certainly a part of this, as are the opportunities created for LSPs in other sectors of its economy, such as oil & gas, and the country's wider openness to FDI.

Factors behind the Potential Emergence of Markets

Please rank, in order of importance, the key drivers that make a country an important emerging market.



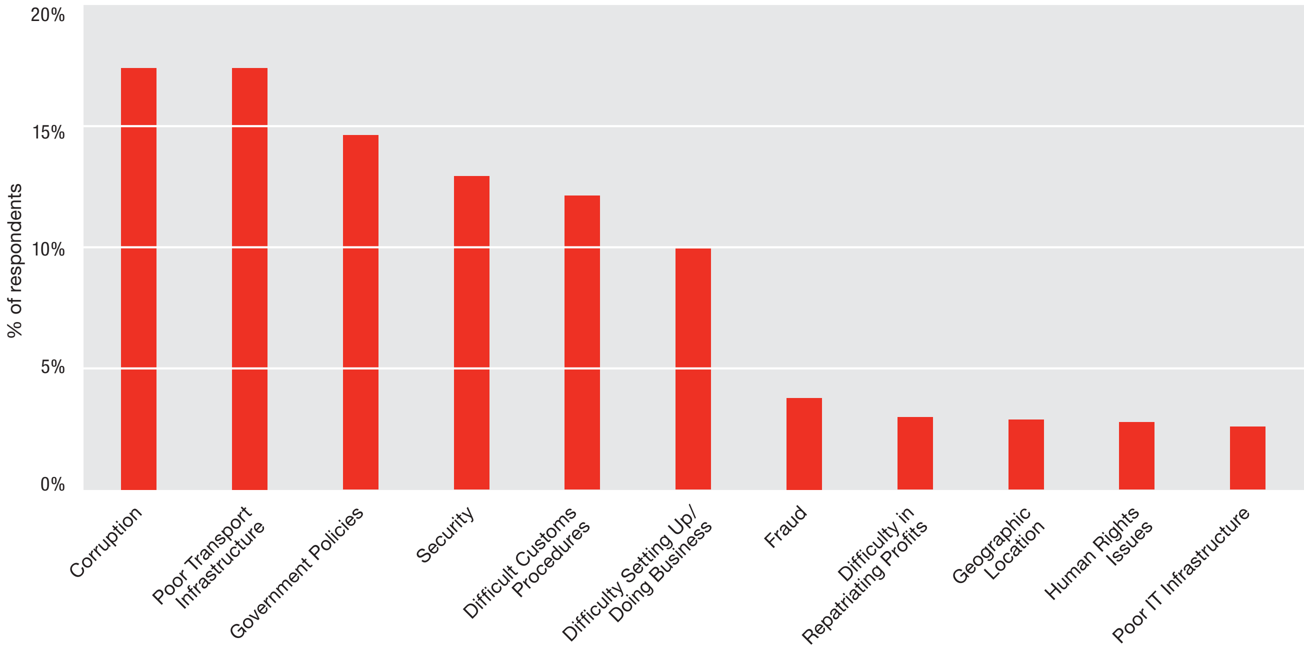
Source: Transport Intelligence

Factor	2017	2016	Y-o-Y Change
Economic growth	1	1	-
FDI	2	2	-
Growing Trade Volumes	3	3	-
Cheap Labour Force	4	5	up 1
Geographic Location	5	6	up 1
Good Business Environment	6	4	down 2
Strong Transport Infrastructure	7	7	-
Growing Population	8	9	up 1
Potential Consumer Spend	9	8	down 1
Near Sourcing Market	10	10	-
Lack of Corruption	11	11	-
Strong Security	12	12	-

Source: Transport Intelligence

Problems Associated with Doing Business in Emerging Markets

Please rank, in order of importance, the main problems associated with doing business in emerging markets.



Source: Transport Intelligence

Factor	2016	2015	Y-o-Y Change
Corruption	1	1	-
Poor Transport Infrastructure	2	2	-
Government Policies	3	3	-
Security	4	5	up 1
Difficult Customs Procedures	5	4	down 1
Difficulty in Setting Up and Doing Business	6	6	-
Fraud	7	8	up 1
Difficulty in Repatriating Profits	8	7	down 1
Geographic Location	9	10	up 1
Human Rights Issues	10	9	down 1
Poor IT Infrastructure	11	11	-

Source: Transport Intelligence

The top two drivers of growth in emerging logistics markets remained 'economic growth' and 'FDI' in 2017. Given the correlation between wider economic expansion and growing demand for logistics services, the continued emphasis placed on this as the top factor is not surprising. It is perhaps likely this will continue, too, with general economic growth playing an important role in encouraging spending within consumer markets, pulling larger amounts of the population into the middle class and increasing levels of public spending on infrastructure projects and other public services.

The rise of 'cheap labour force' and 'growing population' through the rankings seems to imply the need to achieve efficiency and scale in emerging market operations. This may be due to increased levels of competition in emerging markets, making cost reductions a vital part of maintaining profitability. It may also be an indication that traditionally low cost locations are becoming more expensive as living standards rise, a trend seen in China over the course of its rapid development over the last few decades. The increased emphasis placed on 'growing population' may be a result of many LSPs having to shift their attention to consumer markets, as e-commerce becomes more significant across emerging markets, for example, and as programmes to diversify economies away from traditional industrial sectors, as has been seen in the Middle East's oil exporters, gather pace.

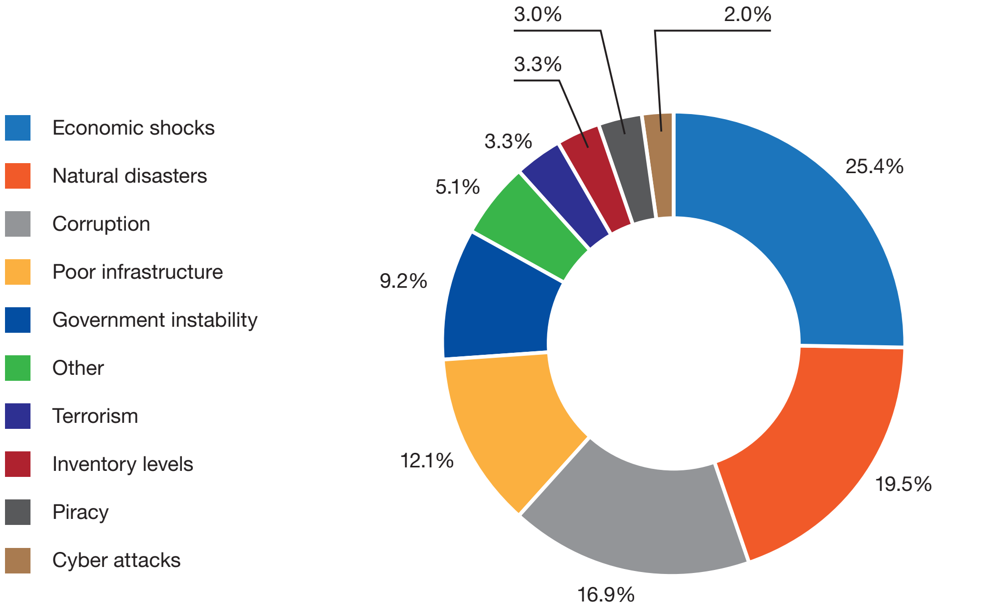
There was more change below the top spots, however. 'Good business environment' fell two positions to 6th, thus reversing the rise it recorded last year. This may reflect two trends – firstly, that the prioritisation emerging markets have given to increasing their attractiveness to foreign investors has created robust business conditions, such as in the UAE, with those surveyed having a higher degree of expectation that appropriate conditions will, by now, be fully implemented. A second, more negative interpretation, is that LSPs are having to follow opportunities into less than optimal locations as growth is squeezed across emerging markets. Such an interpretation may also explain the seemingly contradictory results which place decreasing value in 'good business environment' but rank problems such as 'corruption' and 'government policies' highly as inhibitors of growth. More widely, the continuity of problems year-on-year goes some way to implying that emerging markets are not doing enough to address them.

Overall, it appears 'economic growth' is considered a pre-requisite for emergence as a logistics market. With the rest of the drivers ranked closely, however, they take on added importance. Where economic growth or commercial opportunity is similar between markets, it will be the combination, strength and attractiveness of the other drivers that will see some markets favoured over others in investment decisions. The more even spread and the relatively higher concentrations behind a number of inhibitors suggests the presence of perhaps just one or two risk factors significantly diminishes the potential of an emerging logistics market.

Supply Chain Risk

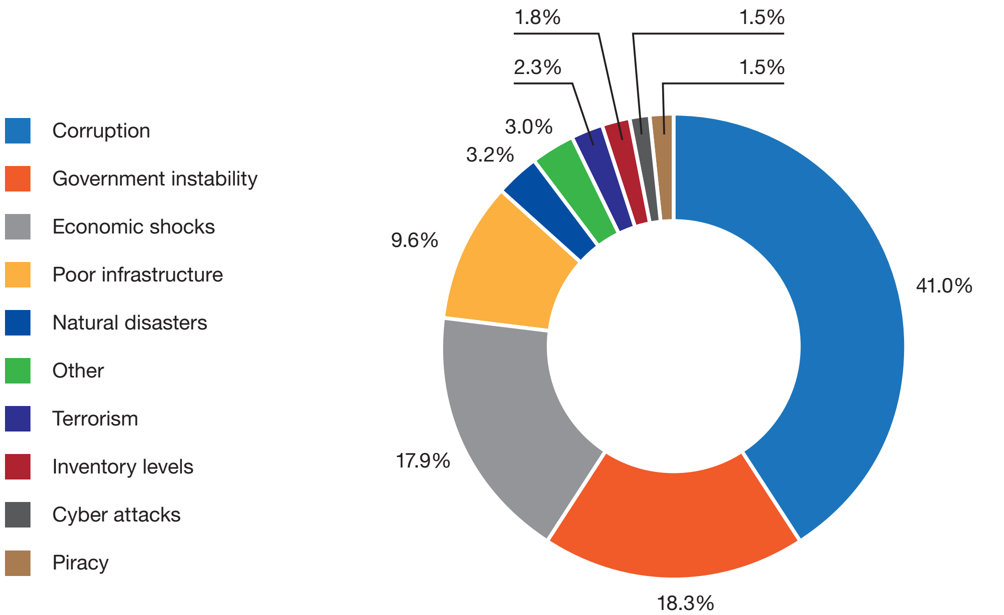
For each of the following regions, please outline which supply chain risk poses the most considerable threat to growth:

Asia Pacific



Source: Transport Intelligence

Latin America

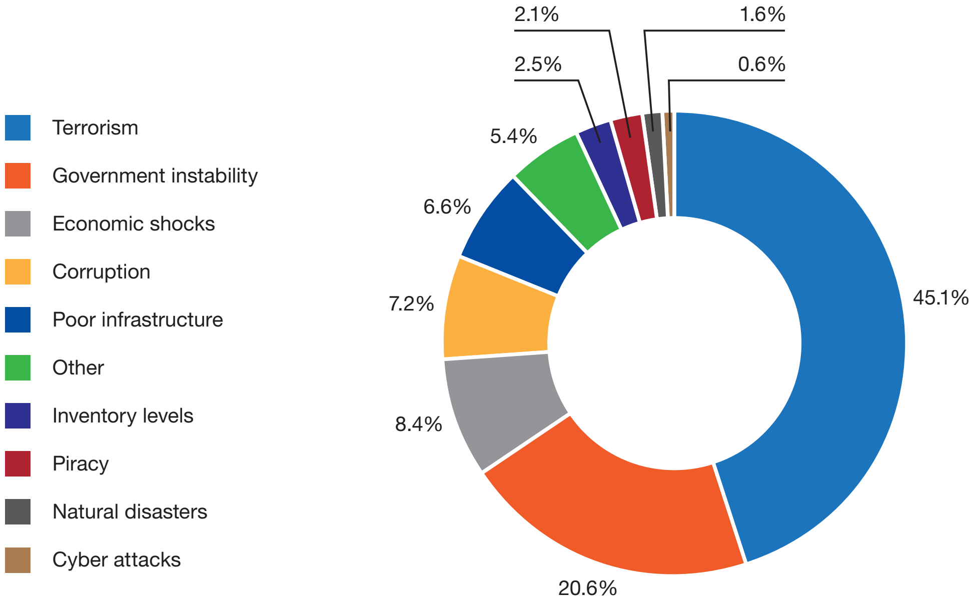


Source: Transport Intelligence

Supply Chain Risk

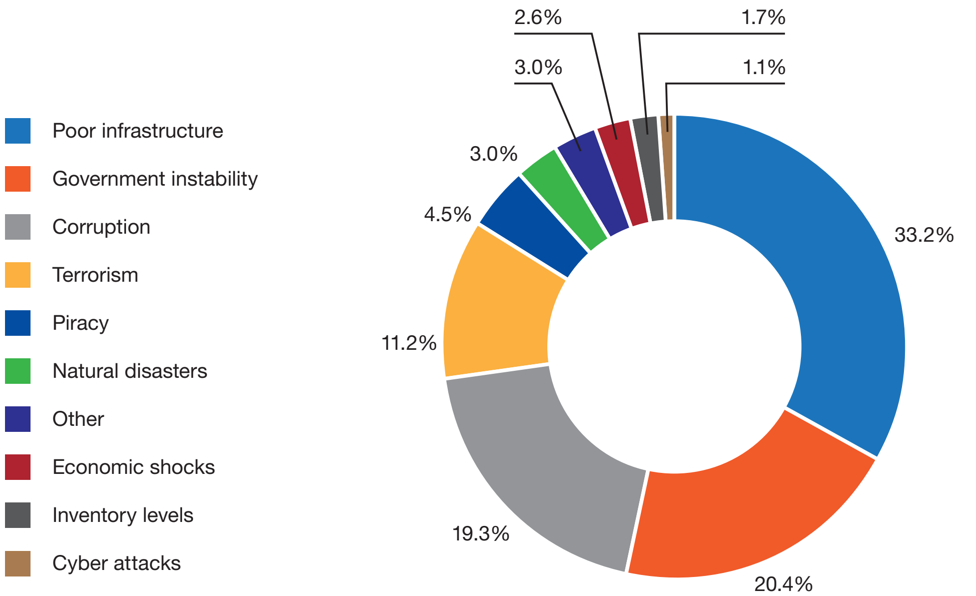
For each of the following regions, please outline which supply chain risk poses the most considerable threat to growth:

Middle East & North Africa



Source: Transport Intelligence

Sub-Saharan Africa



Source: Transport Intelligence

With supply chains an ever more integral part of manufacturing and retailing operations, the need to understand, manage and mitigate risks in the supply chain becomes vital if organisations are to maintain low inventory and just-in-time production schedules. Survey respondents indicated that while macroeconomic indicators were important, individual markets needed to be properly assessed on a micro level if opportunities and risks were to be fully understood. Some key trends do emerge, however. Highlighting the vulnerability of emerging markets to wider economic uncertainty, survey respondents cited 'economic shocks' as one of the three most significant supply chain risk factors in each of three of the four regions covered by the Index – Asia Pacific, Middle East & North Africa and Latin America. 'Government instability' is also a widespread risk, and cited by respondents as a leading risk factor in all regions except Asia Pacific.

Asia Pacific

Economic shocks, natural disasters, corruption and poor infrastructure have been rated as the most significant supply chain risks across Asia Pacific for a second year. Overall, the four risks account for 73.9% of the total responses.

Asia Pacific economies had another challenging year economically in 2016 as the turbulence emanating from China became increasingly acute over the later months of 2015 and early part of 2016. More widely in the region, Asia Pacific economies have seen a variety of headwinds over the last year, which in some cases has prompted government intervention, such as in Indonesia and Malaysia where the state was required to prop up the value of domestic currencies following the threat of a US interest rate rise. It may also be the case that sluggish growth in developed economies both globally and within the region are creating concerns for respondents who see lower demand translating into lower export volumes.

Natural disasters remain the second most significant supply chain risk in the Asia Pacific region. UN data shows the region experienced a staggering 1,600 natural disasters over the decade to 2015, some 40% of the global total. The economic impact of over the same period totals $500bn.

Latin America

Corruption and government instability remained the top two risks in Latin America, following a year which has seen intense coverage of high profile corruption scandals in Brazil. Together the two risk factors accounted from 59.3% of the total responses, suggesting survey respondents are clear in their reasons to be cautious when it comes to investing and operating in the region.

The recessions underway in Brazil and Venezuela – with negative economic growth compounded by hyperinflation and currency volatility in the latter – combined with general low growth across the region, the drivers which saw respondents rank economic shocks as the 3rd most significant Latin American risk factor are fairly clear.

Middle East

Terrorism and government instability were once again ranked as the most significant supply chain risks for the Middle East & North Africa, accounting for 65.7% of the total responses, although both factors accounted for a slightly lower proportion of the total response this year. The dominance of the two risk factors, however, does underline the wider threat to stability that conflicts across the region pose as the potential for spillovers rises.

The perception of poor infrastructure as a supply chain risk to growth in Middle East & North Africa has, however, declined from 8.1% to 6.6%, resulting in this factor dropping to 5th. This is likely a result of vast investment in infrastructure across the region, such as the development of King Abdullah Economic City in Saudi Arabia as well as the undertaking of huge logistics infrastructure development that has seen both sea and airports built and expanded across the region in recent decades.

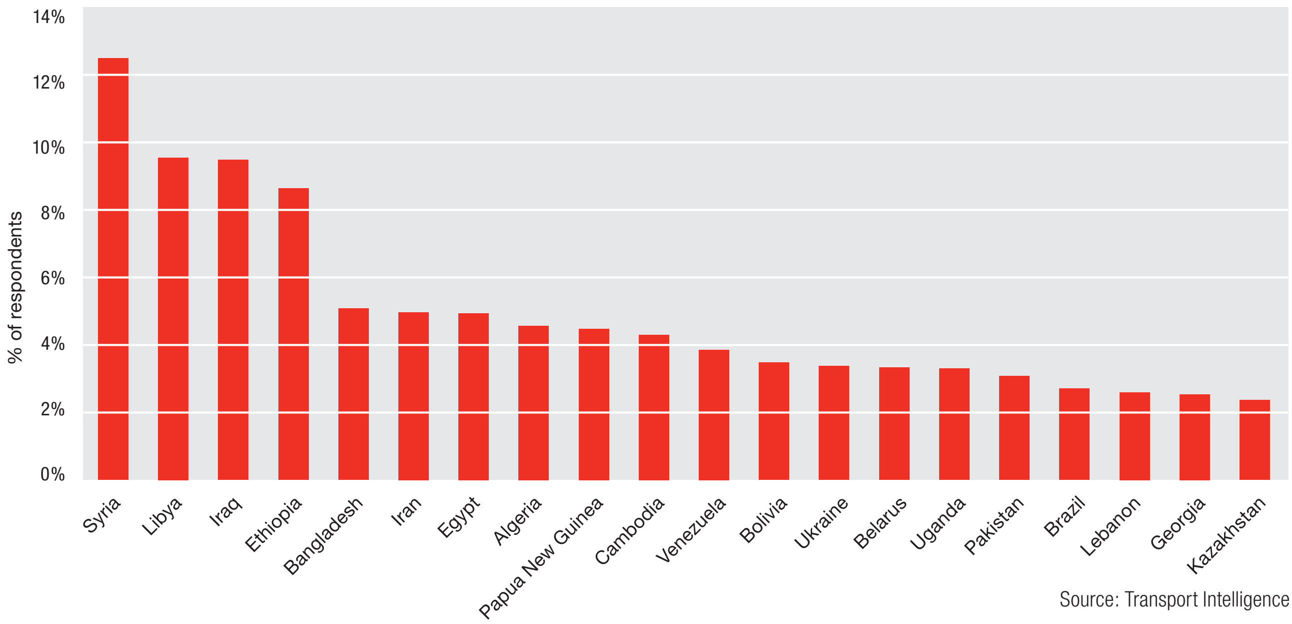
Sub-Saharan Africa

Survey respondents' perceptions of supply chain risks in sub-Saharan Africa is unchanged in the 2017 survey, with poor infrastructure, government instability and corruption again heading the ranking. Together, these risk factors account for 72.9% of the total responses.

The most significant change amongst this group is the 3.9pp rise in the proportion of respondents that indicated corruption is the major risk factor. A 2015 study by Transparency International found that approximately 75m people paid bribes over the year in sub-Saharan Africa, while 18 of the 28 governments assessed were said to be failing in the fight against corruption. Conducting logistics operations in such an environment is highly challenging, with supply chain efficiency and integrity potentially undermined in the absence of such payments.

Least Attractive Emerging Logistics Markets

Which of the following countries do you believe have the LEAST potential as emerging logistics markets? Please rank.



Source: Transport Intelligence

Country	2017	2016	Y-o-Y Change
Syria	1	1	-
Libya	2	4	up 2
Iraq	3	2	down 1
Ethiopia	4	3	down 1
Bangladesh	5	6	up 1
Iran	6	5	down 1
Egypt	7	7	-
Algeria	8	8	-
Papua New Guinea	9	10	up 1
Cambodia	10	9	down 1
Venezuela	11	15	up 4
Bolivia	12	16	up 4
Ukraine	13	11	down 2
Belarus	14	14	-
Uganda	15	13	down 2
Pakistan	16	12	down 4
Brazil	17	17	-
Lebanon	18	19	up 1
Georgia	19	21	up 2
Kazakhstan	20	22	up 2

Source: Transport Intelligence

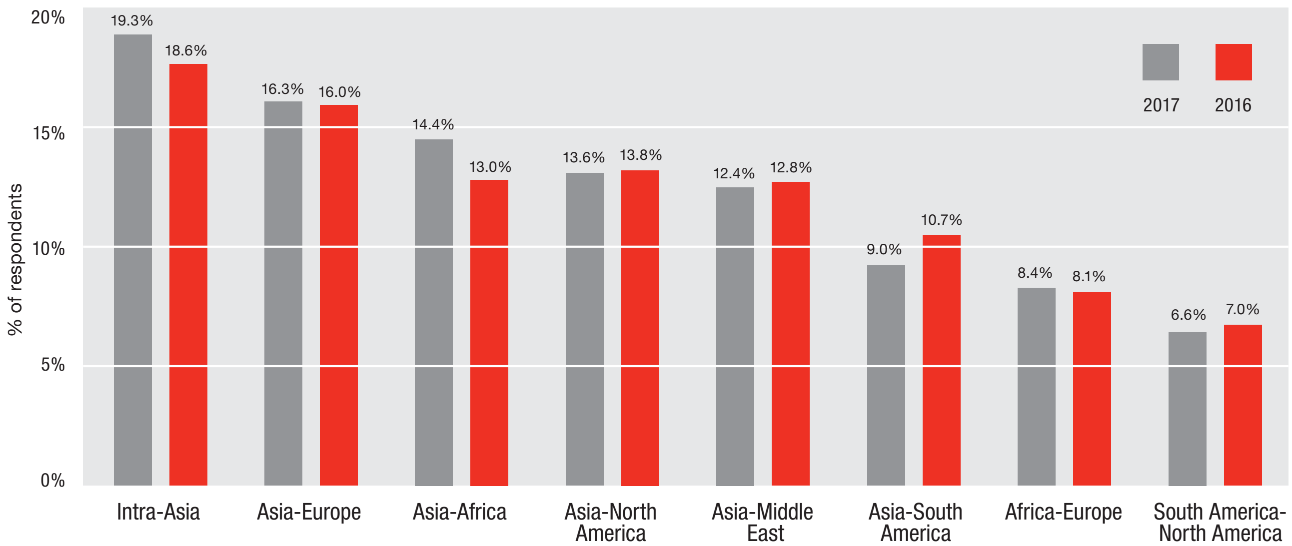
The ranking of emerging markets with the least potential sees Syria, a country beset with violence and instability, maintain its position at the head of the list, having moved away from the pack as respondents collectively add emphasis to the perception this year. The ongoing insecurity across vast swathes of the country has led to conflict of such intensity that damage has left major areas of the country uninhabitable, let alone functional enough to demand commercial logistics operations. Two other countries that have suffered heavily as a result of conflict – Libya and Iraq – join Syria at the top of the ranking again this year, although Libya has leapfrogged Iraq into 2nd position. Libya's rise reflects a lack of progress made by the various administrations empowered to bring embattled areas of the country under the rule of law. Overall, the Middle East & North Africa region contributes four further countries to the list, with Iran, Egypt and Algeria also making the top 10.

Despite falling one position, Ethiopia still places an undesirable 4th in this ranking. Having risen three positions in the data-driven Index, and recording an impressive 10.8% GDP expansion on average for each year over the last decade, recent events and long-term perception of the market seem to undermine its potential. Uganda, down two to 15th, is the only other sub-Saharan Africa market to feature in this list.

Latin America is home to three markets in the list. While Brazil remained in 17th, Bolivia and Venezuela both rose four positions – Venezuela has experienced significant levels of disruption since the collapse of the oil price undermined the major sector of its economy. Brazil, meanwhile, was also one of four markets to appear in both the most and least attractive emerging logistics markets rankings, along with Bangladesh, Iran and Kazakhstan.

Prospects for Emerging Trade Lanes

Which of the following trade lanes do you believe have the greatest potential for future growth?



Source: Transport Intelligence

The intra-Asia trade lane remains the most promising according to survey respondents. This is despite China's lower demand for commodities and weak growth in trade volumes. The region is, though, increasingly interconnected with many markets involved in various stages of production, with components across the value chain manufactured in several different markets before being shipped to an assembly location for re-export. The lane is also expected to see a boost in volumes as consumption in the region rises, with a greater proportion of goods shipped to destination markets in the region, rather than being sent elsewhere in the world. As a measure of the growth in consumption across Asia Pacific, its share of world consumption is expected to increase from 27% in 2016 to 39% by 2035, according to IHS Global Insight.

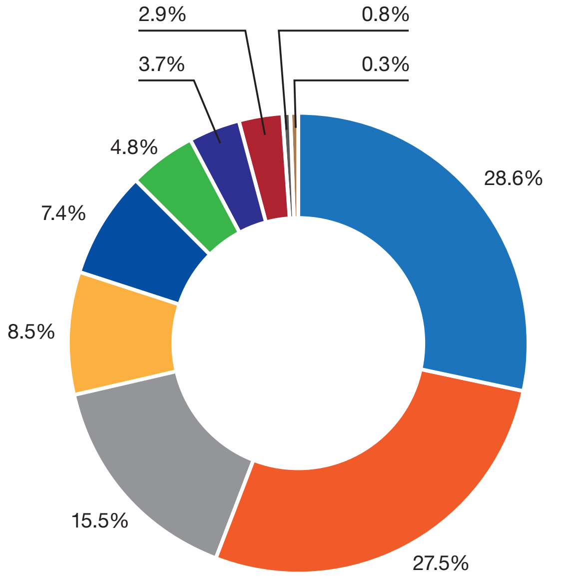
The two other lanes that make up the top 3 – Asia-Europe and Asia-Africa – also saw their share of responses increase year-on-year. The Asia-Europe lane improved marginally, perhaps reflecting faith that demand from Europe for Asia's exports will improve as its economic situation improves. That Asia-Africa is the third highest rated trade lane could be reflected by the investments made by Chinese business and the Chinese state which has improved and enhanced the scale and efficiency of Asia-facing logistics infrastructure in the sub-Saharan Africa region, such as the developments in Tanzania.

Vertical Sectors

Which of the following vertical sectors do you believe have the greatest potential for future growth in emerging markets?

Asia Pacific

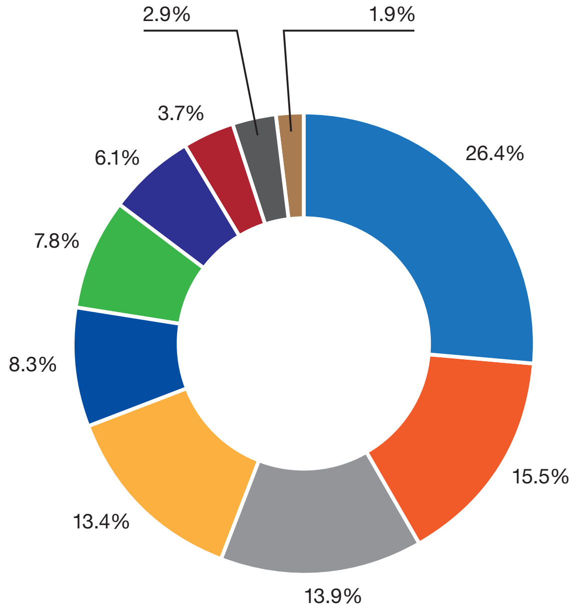
- Retail/Consumer
- Hi-Tech
- Automotive
- Pharmaceuticals/ Medical Equipment
- Agriculture
- Chemical
- Mining (metals, minerals, etc)
- Oil & Gas
- Humanitarian Aid
- Other



Source: Transport Intelligence

Latin America

- Agriculture
- Mining (metals, minerals, etc)
- Automotive
- Retail/Consumer
- Pharmaceuticals/ Medical Equipment
- Oil & Gas
- Hi-Tech
- Chemical
- Other
- Humanitarian Aid

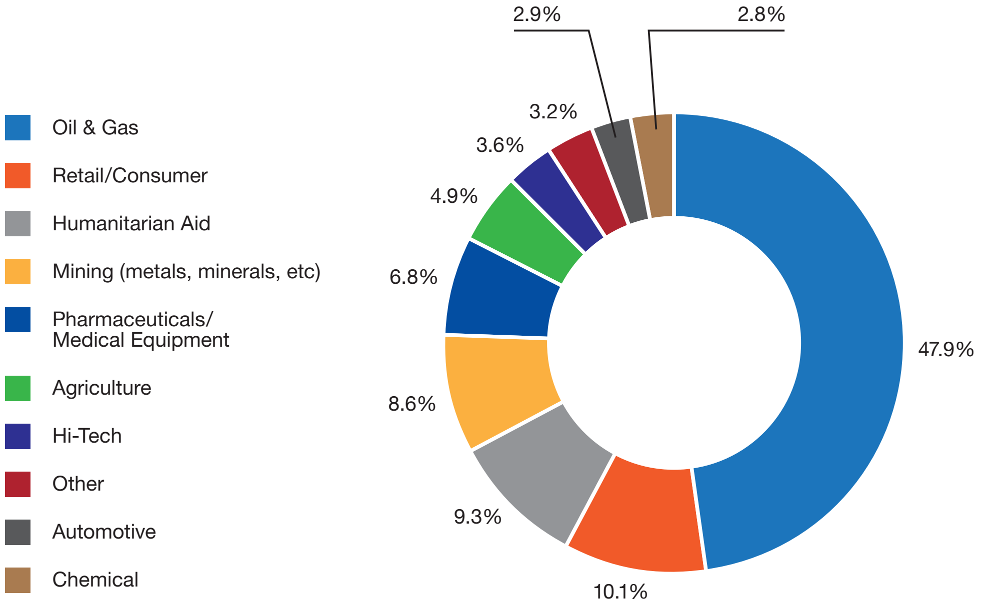


Source: Transport Intelligence

Vertical Sectors

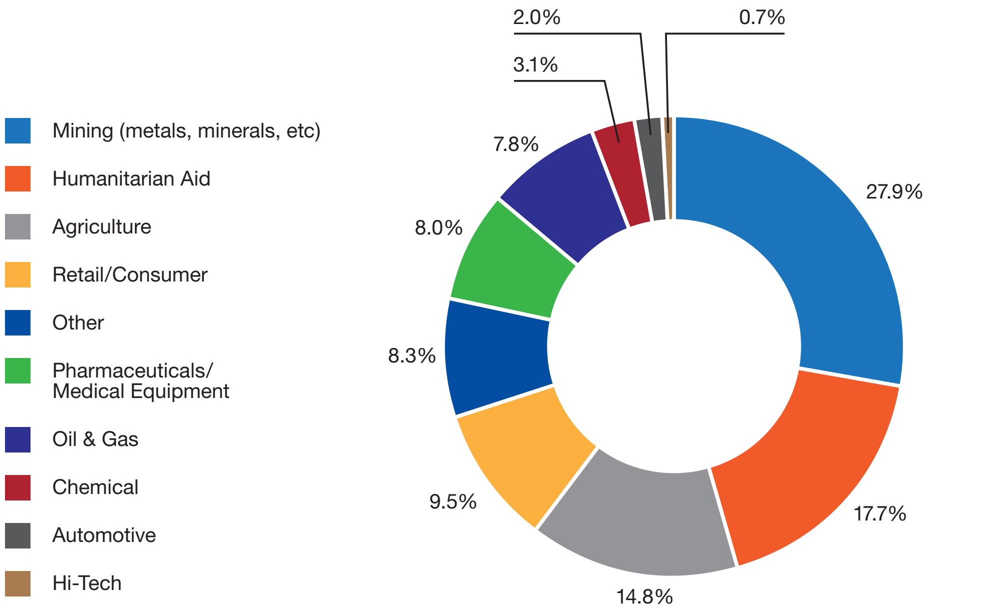
Which of the following vertical sectors do you believe have the greatest potential for future growth in emerging markets?

Middle East & North Africa



Source: Transport Intelligence

Sub-Saharan Africa



Source: Transport Intelligence

Asia Pacific

Asia Pacific saw retail and consumer, hi-tech and automotive remain at the top of the rankings as the vertical sectors most likely to drive growth in the logistics sector across the region. Together the three verticals accounted for 71.6% of the total responses, pointing towards the increased spending power of the region's middle class, as well as the increasingly sophisticated and valuable products Asia Pacific's manufacturers are producing, as drivers of growth.

Latin America

A relatively balanced picture emerges from the rankings of the vertical sectors in Latin America, indicating that various opportunities exist for logistics service providers across the region with four verticals gaining at least 10% of the total responses each. Leading the way is agriculture with 26.4%, while mining, automotive and retail/consumer are separated by just 2.1pp. That two of these markets are extractive industries and two are consumption-driven goes some way to suggesting the variation of opportunity as well as stages of development across the region.

Middle East & North Africa

The oil & gas sector again ranks as the vertical sector most likely to create opportunities for LSPs across the Middle East & North Africa region. Almost half of respondents (47.9%) suggested the sector holds the greatest capacity to drive future growth in the region, a drop of 3.9pp year-on-year, perhaps reflecting survey respondents' belief that the opportunities must be sought elsewhere as oil prices look set to remain low. Retail and consumer also saw its share of total responses fall, down 0.9pp year-on-year, perhaps as a result of falling confidence in consumer spending as subsidies are replaced with taxes in some oil producing markets.

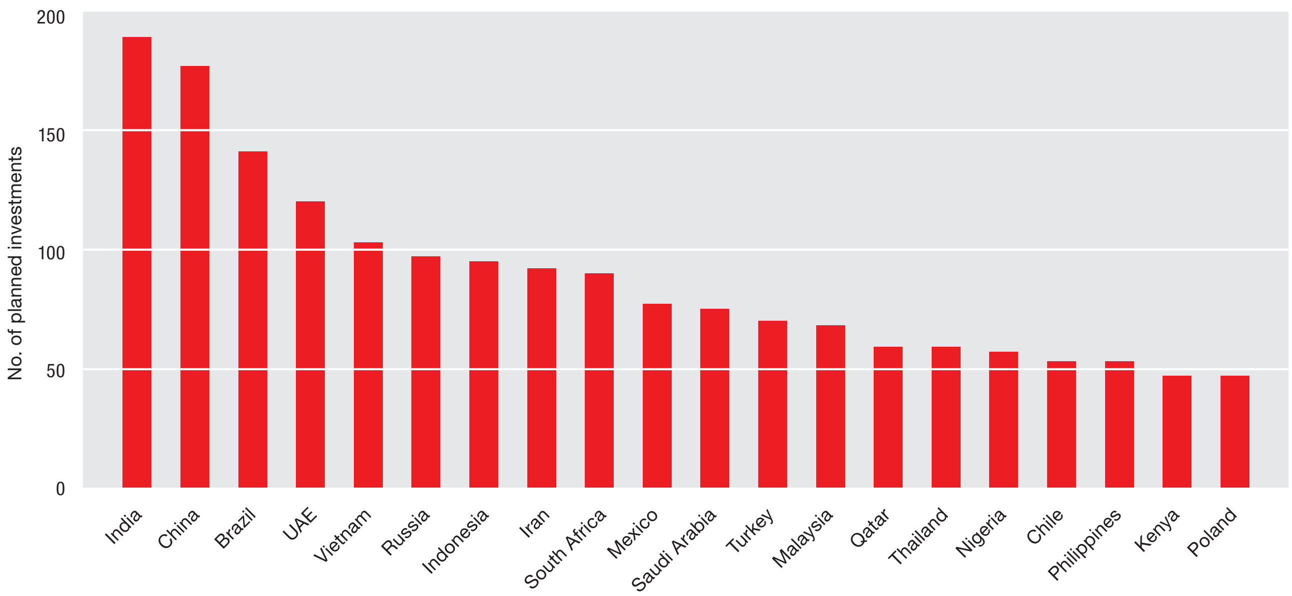
Sub-Saharan Africa

At 27.9%, more than one quarter of survey respondents believe the mining sector has the greatest potential to drive growth in sub-Saharan Africa. Overall, the unchanged top 3 – mining, humanitarian aid and agriculture – account for 60.4% of total responses.

Respondents indicated the potential of the oil & gas sector in sub-Saharan Africa had declined, with 7.8% of respondents selecting this sector in 2017, compared to 11.3% last year. With oil prices set to remain low, this could reflect a lack of commercial viability in the operation of production facilities in parts of the region.

Markets for Potential Investment over the Next Five Years

Which of the following countries, if any, do you plan to expand into in the next 5 years?



Source: Transport Intelligence

Country	2017	2016	Y-o-Y Change
India	1	2	up 1
China	2	1	down 1
Brazil	3	3	-
UAE	4	4	-
Vietnam	5	5	-
Russia	6	6	-
Indonesia	7	7	-
Iran	8	16	up 8
South Africa	9	8	down 1
Mexico	10	9	down 1
Saudi Arabia	11	11	-
Turkey	12	14	up 2
Malaysia	13	10	down 3
Qatar	14	13	down 1
Thailand	15	12	down 3
Nigeria	16	17	up 1
Chile	17	21	up 4
Philippines	18	15	down 3
Kenya	19	23	up 4
Poland	20	18	down 2

Source: Transport Intelligence

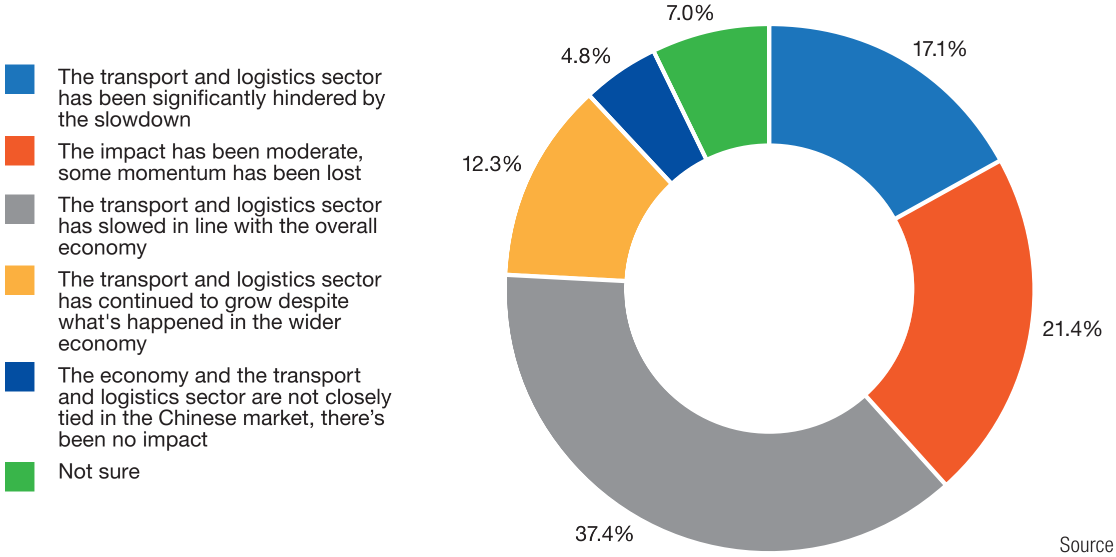
Respondents indicated that India has moved ahead of China as the market with the most planned investments over the next five years. The slowing of growth in China, in combination with the reforms which unlock potential and increase efficiencies in the Indian market are undoubtedly a part of this switch in position, as is the centrality of China in expansion plans at many LSPs over much of the last decade – LSPs have already established operations in China. There was generally a high degree of continuity in the top 10, overall, with Brazil retaining third position despite a challenging few years, suggesting the underlying potential of the market remains attractive to logistics providers. In total, nine of the top 10 remained the same, with only Malaysia, down three positions to 13th, falling out.

It was Iran that replaced Malaysia in the top 10, gaining 16 positions to rank as the market with the 8th highest number of planned investments. Iran ties together its rise up both the data-driven Index and the ranking of markets with most potential elsewhere in the survey with a strong rise in this list, to enter the top 10 for the first time ever. Across all elements of the Agility Emerging Markets Logistics Index 2017, Iran has performed strongly, underlining its current performance, but perhaps more importantly, highlighting its future potential in the eyes of logistics industry professionals. Its newfound openness to FDI will also have played a significant role here.

Overall, the Asia Pacific region struggled. Of its seven markets amongst the top 20, four fell, including Malaysia, Thailand and the Philippines, indicating lower demand from China continues to affect these markets, as well as the wider region generally. More worryingly, it may indicate that the domestic markets on offer to LSPs are perhaps not developed enough to sustain investment plans alone.

Perceived Effect of China's Economic Slowdown on the Transportation & Logistics Market

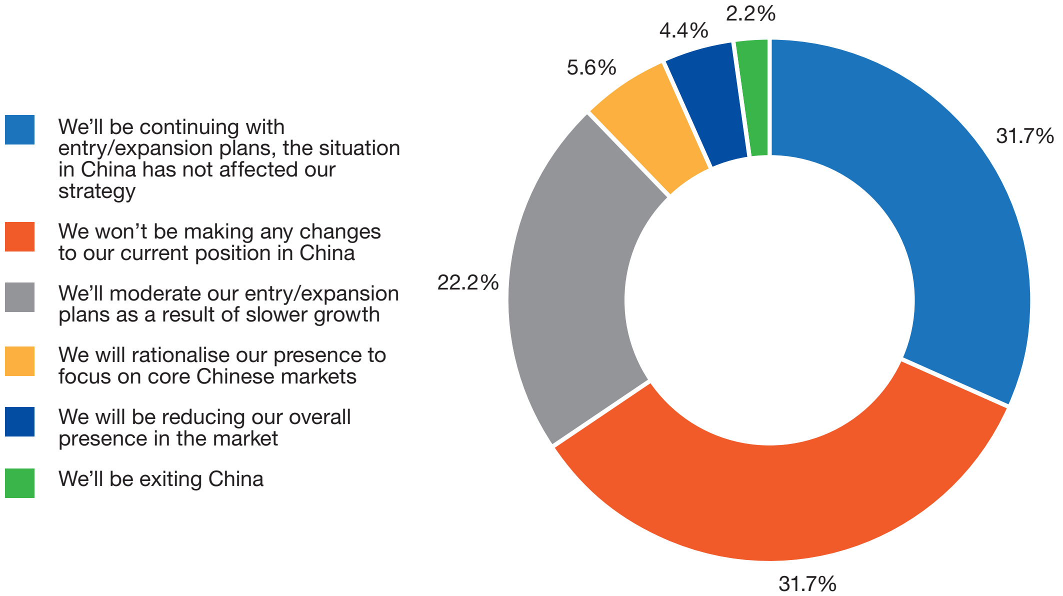
How has China's economic slowdown impacted the country's transportation and logistics sector?



Source: Transport Intelligence

Strategies for China

Which statement best reflects your plans for the Chinese market over the next 12 months?

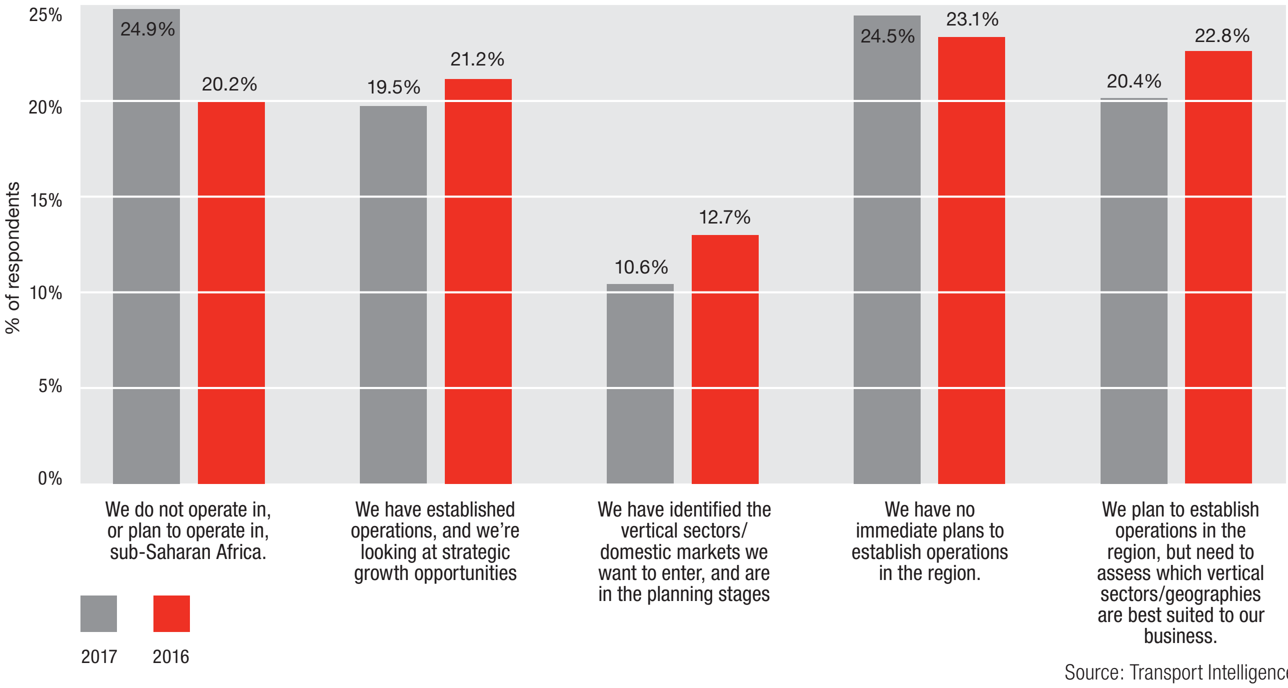


It is broadly accepted that the overall logistics market moves in line with wider economic growth in mature markets, and a little more than one third of survey respondents indicated the same is true of China too. With China rapidly transitioning towards an economy focussed on service sector expansion, it could be that slowing growth and declining volumes in manufacturing sectors are being replaced with opportunities in other parts of the economy, most notably e-commerce. The indication here is that LSPs on the whole have managed to build a good mix of business in their portfolios, and avoided the risks of overexposing their operations to declining sectors of the market.

Indeed, when looking to the future, survey respondents are relatively bullish on the market's ability to continue to provide opportunities, with just 12.2% of respondents indicating any type of downsizing in their presence in the market. At 31.7%, nearly one third of those surveyed indicated the state of the Chinese economy presented no reason to change market entry or expansion plans, while slightly more, at 33.9%, would continue with current operations. Slightly more than one fifth (22.2%) either have made adjustments to strategies as a result of the slower growth in China, however.

Strategies for Sub-Saharan Africa

Which of the following statements best reflects your strategy in sub-Saharan Africa?



Source: Transport Intelligence

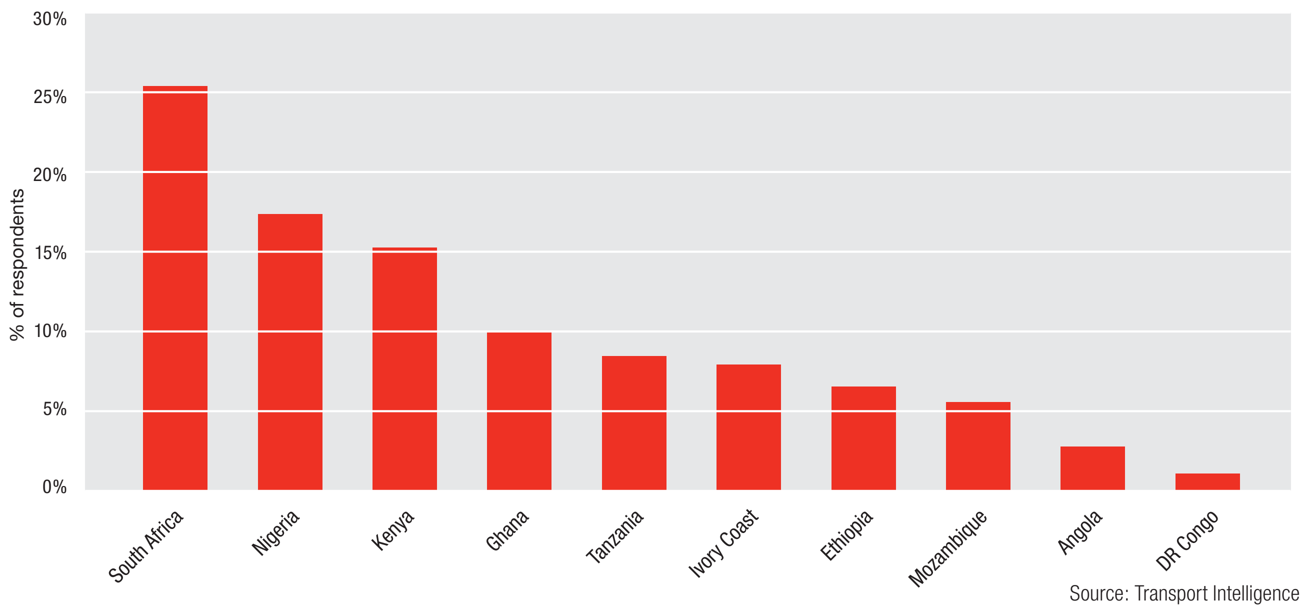
Nearly one quarter (24.9%) of those surveyed indicated they do not, and do not plan to, operate in sub-Saharan Africa, a rise of 4.7pp year-on-year. This, combined with the 24.5% of those that stated they had no immediate plans to enter the region, put the total of survey respondents that suggested the region does not fit with their future plans at 49.4%.

Still, that leaves more than half of all survey respondents with either established operations in the region, or with the intention to begin operations in the near-term, with around one fifth of the total (19.5%) looking to expand, suggesting, in contrast to other respondents, opportunities are readily available to those with direct experience of the market.

Overall, respondents indicated a near even split between those who do not see logistics markets within sub-Saharan Africa's nations as viable opportunities for their particular business aspirations, and those who have either entered or intend to enter the market. This is perhaps explained by the diversity which the region exhibits – Africa's population is growing rapidly, as is the spending power of its middle class, and the scale of the opportunities in industries such as mining, consumer goods & retail, agriculture and others is significant. But so too are challenges within the region. Infrastructure gaps remain, making it near impossible to run modern logistics operations in some locations, and also precluding sophisticated manufacturing techniques, such as just-in-time, markedly increasing cost in other areas such as inventory. Moreover, simply linking manufacturing locations to export gateways can be problematic with roads subject to chronic congestion. Sporadic electricity production can cause other problems, particularly in more advanced logistics operations, such as cold chain operations.

Sub-Saharan Africa's Most Promising Markets

Which of these African countries do you believe has the most potential as a logistics market over the next 5 years? Please rank.



Source: Transport Intelligence

Country	2017	2016	Y-o-Y Change
South Africa	1	1	-
Nigeria	2	2	-
Kenya	3	3	-
Ghana	4	4	-
Tanzania	5	6	up 1
Ivory Coast	6	-	new entry
Ethiopia	7	8	up 1
Mozambique	8	7	down 1
Angola	9	5	down 4
DR Congo	10	9	down 1

Source: Transport Intelligence

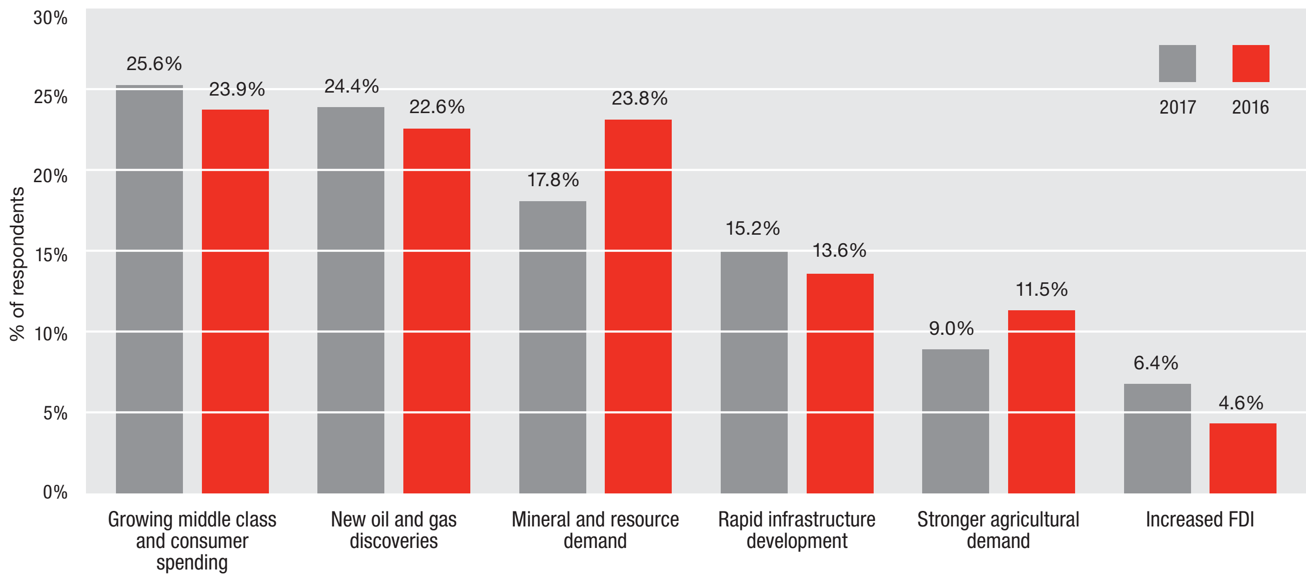
The top four positions for sub-Saharan Africa's most promising markets remained unchanged in 2017, with survey respondents again identifying the region's two largest economies as having the most potential.

Despite its lacklustre performance in the data-driven Index, South Africa's status as the most promising logistics market in sub-Saharan Africa was undiminished. The country has seen low levels of growth in recent years and social issues which have affected key logistics markets, such as mining. The size and wealth of South Africa, however, remain significant on a continental level and survey respondents clearly see its ability to create opportunities as more enduring than recent setbacks. Nigeria, meanwhile, maintained second position despite a year that saw it enter recession, and its oil sector affected by the global fall in prices. Angola, another of Africa's oil exporting nations, was the most significant casualty in the opinion of survey respondents, falling four ranking places to 9th in the list. World Bank figures put oil's share of Angola's total exports at 97% over the decade to 2015, and the economy has not been able to withstand falling prices as growth has slowed and inflation hit 35%, reducing the spending power of Angola's population.

Kenya, which rounded out the top 3 alongside South Africa and Nigeria, matched performance here with a positive showing elsewhere in the survey – it rose four places to 19th in the ranking of future investment locations – as well as an upward movement of two positions to rank 43rd in the data-driven Index. In total, 58.0% of respondents cited one of the top 3 as sub-Saharan Africa's most promising logistics market.

Drivers behind the Emergence of Sub-Saharan Africa's Emerging Markets

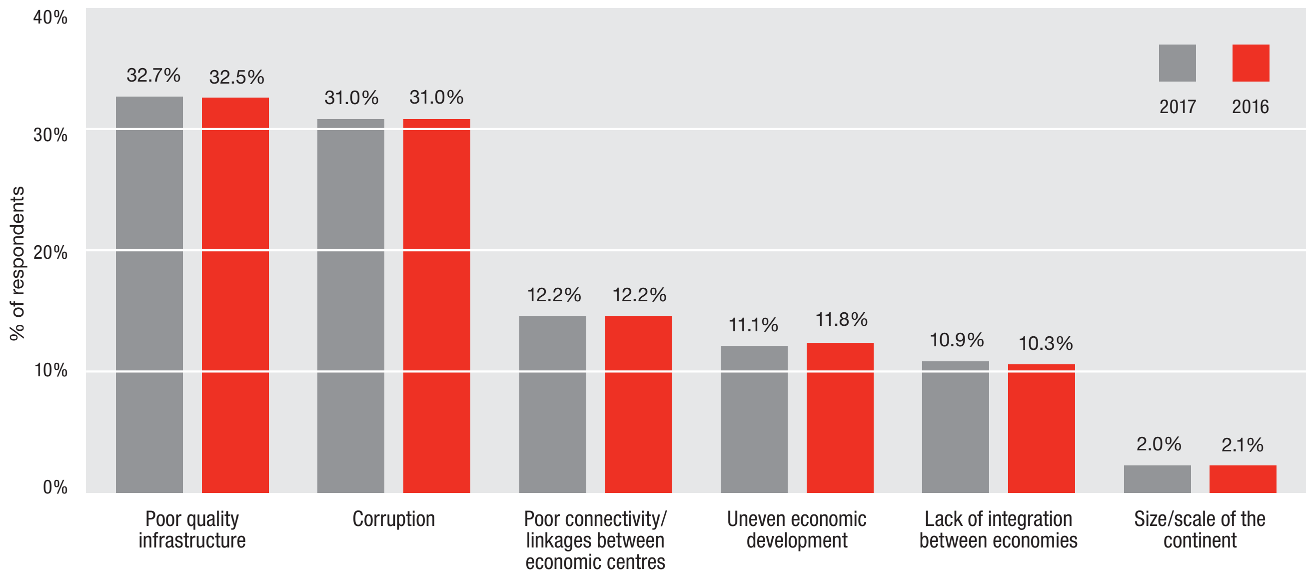
What do you perceive to be the most significant driver of growth in the emergence of Africa's logistics market?



Source: Transport Intelligence

Inhibitors of Growth in Sub-Saharan Africa

What do you perceive to be the biggest challenge prohibiting the emergence of Africa's logistics market?



Source: Transport Intelligence

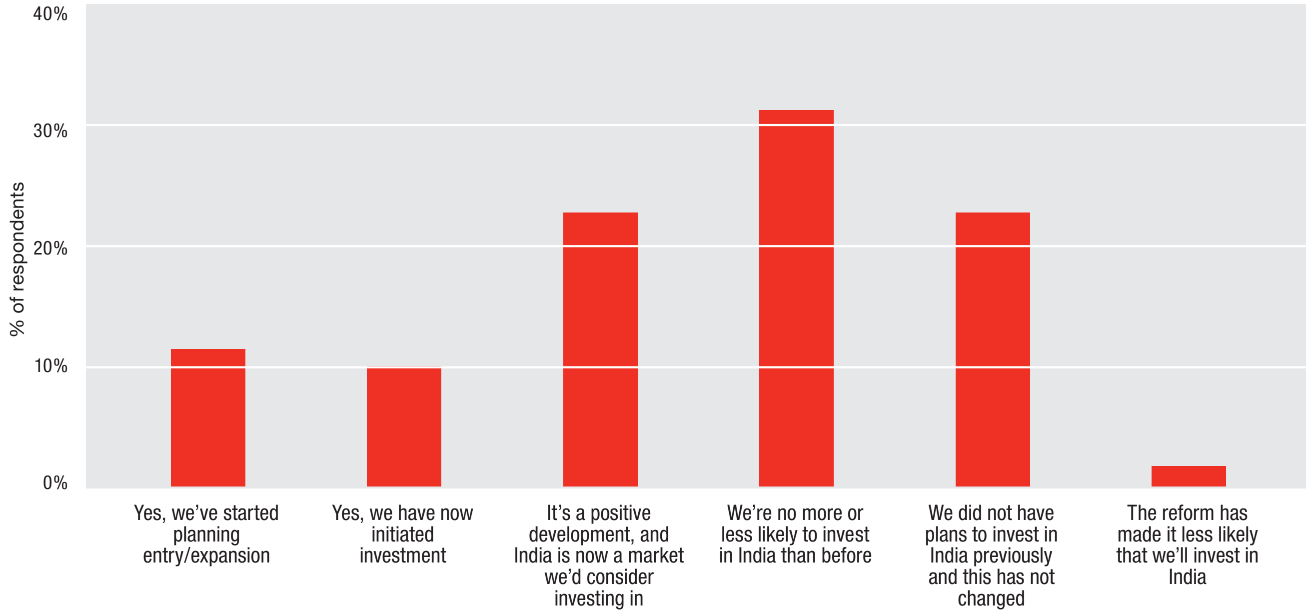
While the top driver of sub-Saharan Africa's logistics markets remained growth in the region's middle class and consumer spending, new oil & gas discoveries replaced mineral and resource demand as the 2nd most important driver. In terms of those factors inhibiting emergence, however, there was no change and the consensus remained clear – a combined 63.7% of those surveyed cited poor quality infrastructure and corruption as the most significant factors holding logistics growth in the region back.

Combined, a smaller proportion of survey respondents indicated that extractive industries were significant drivers of growth in the region's logistics market in 2017. Across 'new oil and gas discoveries' and 'mineral and resource demand,' 42.2% of those surveyed indicated these would be the main drivers, down from 48.2% last year. It should be noted, however, that year-on-year, only 'mineral and resource demand' saw a reduced share of responses, losing some 6.0pp, perhaps indicating survey respondents' belief that prices for the region's commodities are set to remain low over an extended period.

A significant degree of continuity was seen year-on-year in survey respondents' perception of the factors inhibiting growth in sub-Saharan Africa's logistics market. This would appear to suggest that not enough is being done to reduce barriers to entry. Poor infrastructure remains the most significant inhibitor of development in the region, while infrastructure development ranked as only the fourth most significant driver. Not only is logistics fundamentally limited by poor infrastructure, wider economic development is hindered by poor connectivity and linkages between economic centres and general inequality. That just 2.0% of respondents believed the size and scale of the continent to be fundamentally holding back growth suggests a lack of coordinated action to overcome infrastructure challenges.

Strategies for India

Has the passing of reform, including the Goods & Services Tax, changed your plans to invest in India?



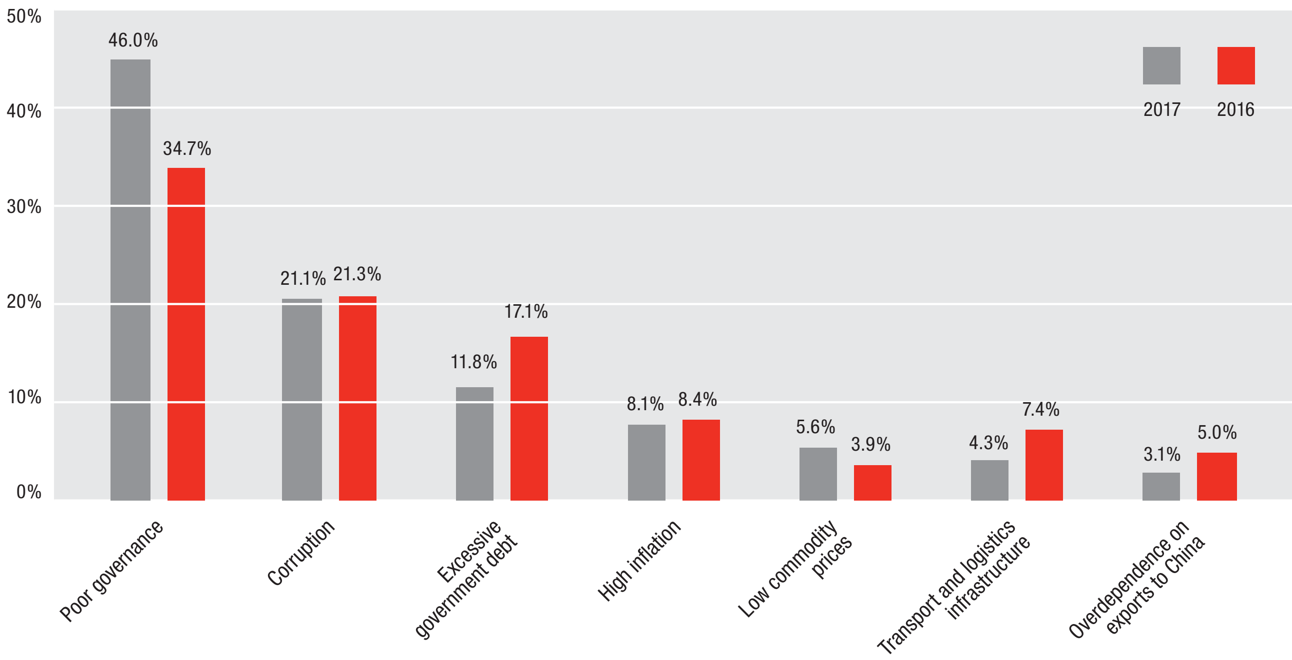
Source: Transport Intelligence

The passing of the GST and the reforms agenda more widely have been characterised as a significant opportunity for India to overcome many of the barriers to entering the market that have previously stymied investment, particularly from overseas. That around one third of respondents (30.9%) said they were no more or less likely to invest, and that nearly one quarter (22.8%) do not see the development as a reason to factor the country into their plans, means a combined 53.7% of those surveyed have been unmoved by the reforms made to improve the attractiveness of the Indian market. An implication of this outcome is that India's recent high levels of FDI may be unsustainable, at least as far as investment in logistics is concerned. Overall, FDI in India has been at record highs over 2014 and 2015, but fell approximately 21% in the first six months of 2016 against the previous year, according to OECD figures.

Survey respondents provide an interesting contrast in their suggestion across the survey that India is the emerging logistics market with the most potential, while also suggesting that flagship reform programmes designed to unlock significant value and efficiency across the economy, including within the logistics sector, are not the catalyst many are seeking. That India is the emerging market with the highest number of planned investments, suggests in combination with results here that, while not all LSPs have interest in the market, those that do are moving quickly to establish a large scale footprint across the country.

Barriers to Growth in Brazil

What is Brazil's biggest obstacle to returning to higher growth?



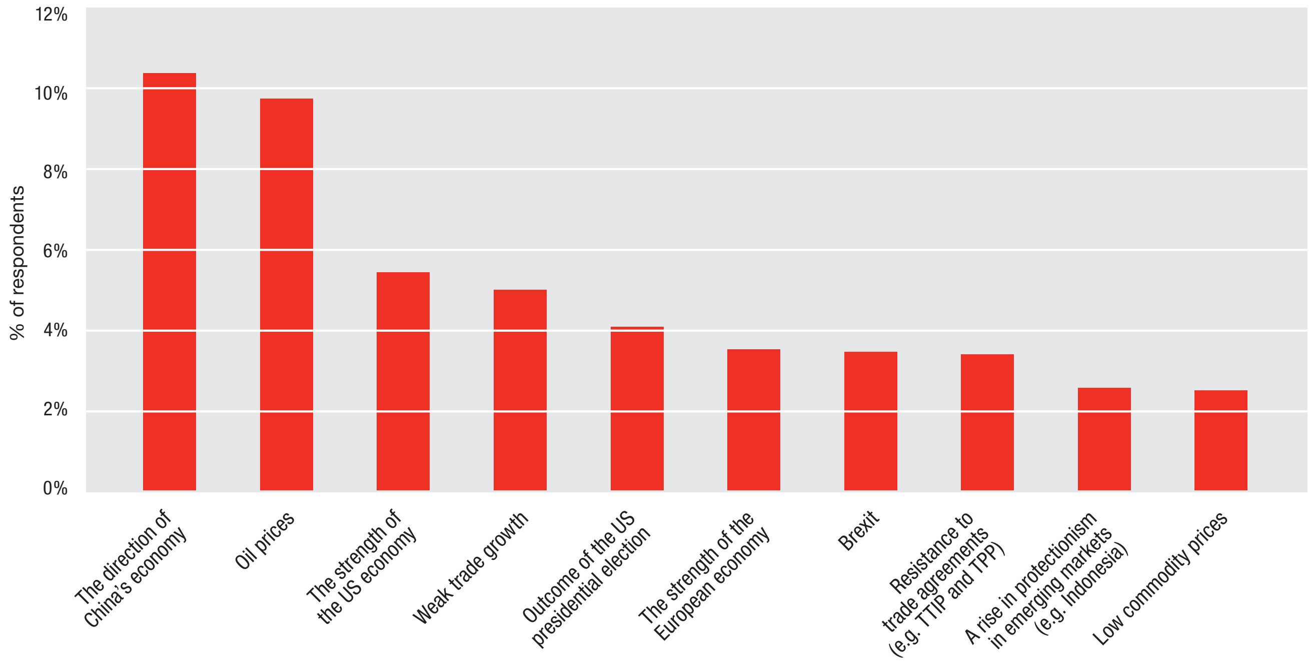
Source: Transport Intelligence

While the order in which survey respondents ranked the major barriers to a return to growth in Brazil was unchanged year-on-year, there was a marked increase in the number of respondents that cited 'poor governance' as the most significant factor. At 46.0%, nearly half of those surveyed pointed to the lack of ability amongst key state institutions at state and central levels to properly govern in Brazil, an increase of 11.3pp compared with last year. There is a clear suggestion too, with the year-on-year increase, that no short-term solution is expected, although the reduction of respondents citing 'excessive government debt' as a barrier does perhaps show an indication that the new administration of Michel Temer may have eased some concerns.

Other responses in the survey highlight that Brazil retains a considerable amount of attractiveness as a logistics market – it ranked as the 3rd highest market in terms of potential and for the highest number of planned investments – likely driven by its large middle class in what is still a vast economy, despite recent recession. Brazil also still displays a number of inefficiencies with underdeveloped infrastructure prime amongst the causes. In a world of competing and highly competitive emerging markets, sustaining the level of attractiveness Brazil currently displays will be a significant challenge as it seeks to solve problems which, given their high levels of complexity, have very few easy fixes.

Most Significant Drivers in the Global Economy

Which of the following do you think will have the most significant impact on global economic and trade growth over the next 12 months?



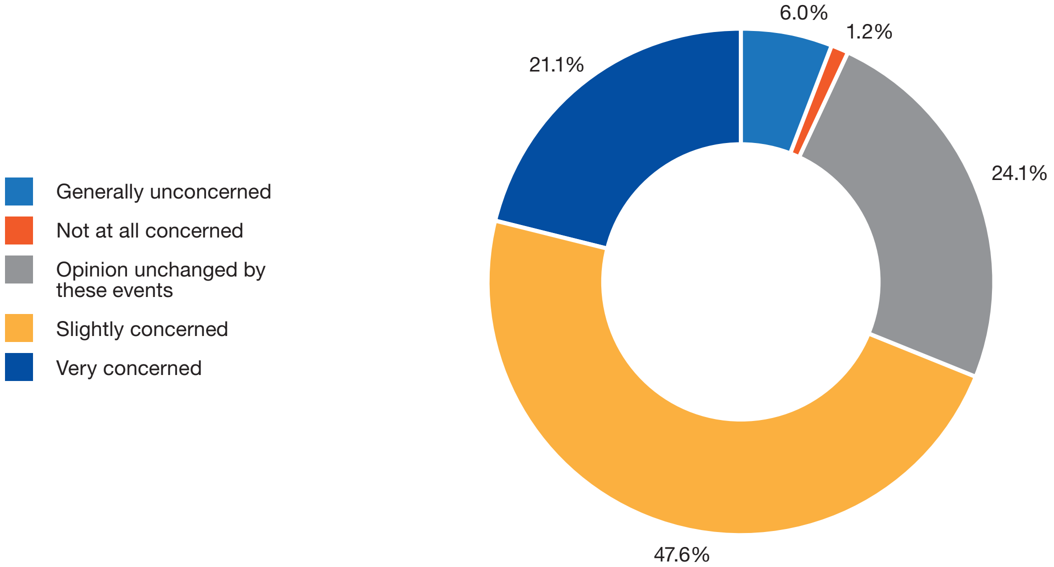
Source: Transport Intelligence

The direction of China's economy is the variable likely to have the most significant effect on global economic and trade growth over the course of 2017, according to survey respondents. However, while it was the factor that gained the largest share of respondents' votes, at 10.5%, the real indication of the results here is that a number of factors are weighing on the minds of supply chain professionals as they look at the year ahead.

Events in China perhaps prevail due to its connectedness with the fortunes of trading partners, as well as the increasing integration the world's second largest economy has with the global economy at a systemic level. Oil prices are ranked highly, too, as fluctuations can have large impacts on LSPs, particularly those in marginal businesses such as sea freight. Oil prices also clearly impact on producing nations, but with prices looking likely to remain suppressed for the foreseeable future, exporting nations have been adapting with economic diversification plans. This process looks set to continue over the year ahead at least.

The Future of Free Trade

2016 has seen a number of setbacks for the global free trade movement, including Brexit, resistance to TTIP and TPP as well as growing protectionism in some emerging markets, such as Indonesia. On the scale below, please indicate your level of concern that these developments are the start of a move away from free trade and towards the introduction of more barriers to international trade?



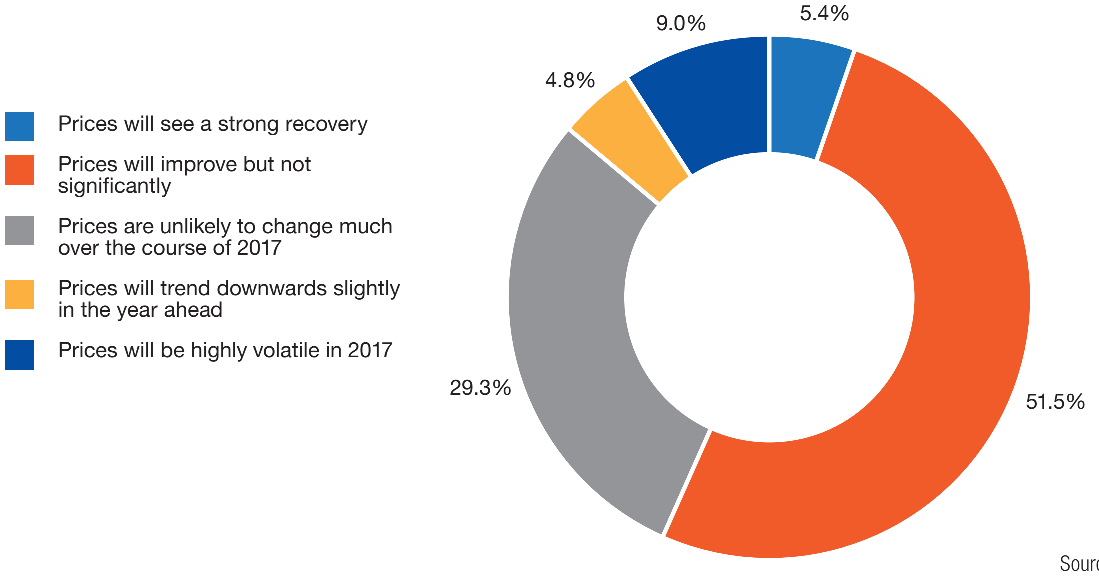
Source: Transport Intelligence

Despite gaining attention in the latter stages of 2016 as Brexit and the US presidential election unfolded, the movement towards a less open trading environment globally does not feature significantly highly on many participants' list of concerns.

In terms of the perceived threats to the future of global trade, almost a half of respondents (47.6%) reported that they are slightly concerned regarding the impact of developments such as Brexit and resistance to TTIP and TPP on the global free trade movement. Combining those respondents with only a slight level of concern with those who indicated the developments were not significant, nearly 80% of those surveyed indicated their belief that the global free trade movement is robust enough to continue despite the challenges.

Commodity Price Development

How do you predict commodity prices (oil, gas, minerals) will fare in the year ahead?

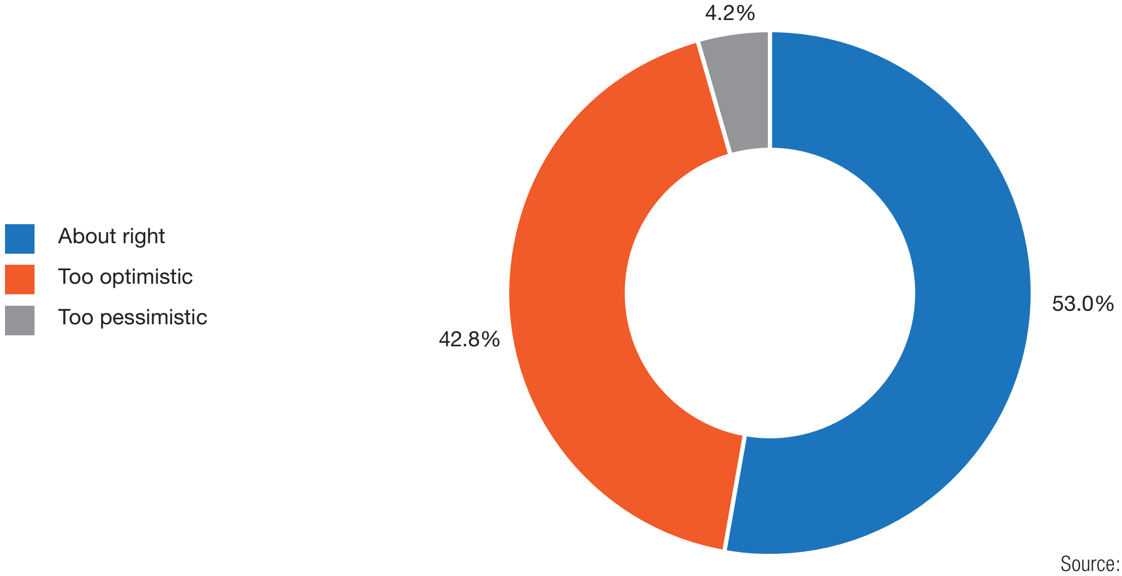


Source: Transport Intelligence

Slightly more than a half of respondents (51.5%) predict price improvements in the year ahead, though the expectation is that any improvements will be moderate, with a return to prices seen during the commodity boom years of the 2000s a long way off. The implication here is that, much like oil prices specifically, the adjustment to a "new normal" of lower prices has now taken the place of any expectations of a quick rebound. This is reinforced by the 29.3% of those surveyed expect that prices are unlikely to change much over the course of 2017.

Prospects for Emerging Market Growth

The IMF forecasts 2017 emerging market growth of 4.6%. In your opinion, is this:



Source: Transport Intelligence

That more than half (53.0%) agree with a forecast that puts growth in emerging markets below the average seen for much of the 2000s suggests that, at best, respondents expect many of the challenges faced in recent years to remain over the course of 2017.

A range of threats and challenges to growth in both developed and emerging economies have caused disruption and turbulence for much of the last two years or more. China's slowing economy, lower oil prices, volatile currencies, rising protectionism in major economies and looming higher US interest rates all influence, directly or indirectly, a fundamental driver of the logistics industry – global trade volumes. That such headwinds have endured for much of the last few years has likely led to survey respondents moderating their expectations for growth in emerging markets. The uneven impact of these variables, and the unique strengths and circumstances of various markets, will perhaps see strong growth in certain sectors or certain markets, however. Where this occurs, logistics service providers would be well advised to expect to find highly competitive environments.

Based on a survey of more than 800 supply chain and logistics industry professionals

Drivers of Growth

Availability of cheap labour and growing population are more important growth drivers in 2017 than in 2016.

Growth Inhibitors

Corruption and poor infrastructure are factors which most inhibit growth. Bureaucracy can sap efficiency.

78.9% confident that global free trade movement will continue despite threats

95.8% said emerging markets 2017 GDP forecast of 4.6% is the best hoped for

4.6%

INTERNATIONAL MONETARY FUND

Syria

Libya

Iraq

Top 3 least attractive due to violence and instability

65.6% will carry on with existing plans despite slowing growth

Poor governance and corruption main obstacles to higher growth.

Remains the market with third most potential.

3

India ranked as the emerging market with most potential to grow

About Agility and Transport Intelligence

Agility – A leader in Emerging Markets

Agility brings efficiency to supply chains in some of the globe's most challenging environments, offering unmatched personal service, a global footprint and customised capabilities in developed and developing economies alike. Agility is one of the world's leading providers of integrated logistics. It is a publicly traded company with over $4.8bn in revenue and more than 20,000 employees in 500 offices across 100 countries.

Agility's core commercial business, Global Integrated Logistics (GIL), provides supply chain solutions to meet traditional and complex customer needs. GIL offers air, ocean and road freight forwarding, warehousing, distribution, and specialized services in project logistics, fairs and events, and chemicals. Agility's Infrastructure group of companies manages industrial real estate and offers logistics-related services, including e-government customs optimization and consulting, waste management and recycling, aviation and ground-handling services, support to governments and ministries of defense, remote infrastructure and life support.

Web: www.agility.com

Twitter: @Agility

LinkedIn: www.linkedin.com/company/agility

Transport Intelligence

Ti is one of the world's leading providers of expert research and analysis dedicated to the global logistics industry. Utilising the expertise of professionals with many years of experience in the mail, express and logistics industries, Transport Intelligence has developed a range of market leading web-based products, reports, profiles and services used by many of the world's leading logistics suppliers, consultancies, banks and users of logistics services.

If you have any feedback on Agility Emerging Markets Logistics Index 2017, please do not hesitate to get in touch with us by any of the following means:

Telephone:+44 (0)1666 519900

Email: ssmith@ti-insight.com

Web: www.ti-insight.com

Twitter: @Ti_insight

Linkedin: The Transport Intelligence Forum