

The super powers of the world economics essay

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In trade, progress on logistics has failed to grow as compared to other operations despite the fact that logistics development is crucial for sustaining competitive advantages. Deprived transport infrastructure, underdeveloped transportation and logistics services, and sluggish and costly routine procedures are the reasons for high logistics costs for East Asian countries which are impediments for export and import, foreign investment and for a better economy. The equilibrium amongst these three reasons varies in countries, but in every country a corresponding approach to address all of these is required to construct sustainable improvements in competitiveness. The requisite policy agenda expands broadly to revitalizing the evolution of logistic services, propagating product standards, licensing imports, and eventually henceforth encouraging the foreign investment. For countries that have moved ahead of the export of fundamental agricultural and mining commodities, logistics requirements become more difficult as compared to others as corporations that are into manufacturing, especially those integrated into global production chains, seek not only small transport costs but also a multitude of urbane logistical needs including undersized transit times, consistent delivery timetables, vigilant handling of goods, qualifications of product excellence, and safety from theft or any accident. In many developing countries, the basic transport infrastructures hardly meet the logistics needs of these manufacturing firms and hence are at a loss for attaining any foreign exchange. This report assesses the main logistics issues faced in developing and emerging markets and highlights its importance for growth and development. First, the macroeconomic associations between logistics and trade have been briefly outlined, and, because the developing economies of the districts vary fundamentally in <https://assignbuster.com/the-super-powers-of-the-world-economics-essay/>

their stages of development, amount of openness, and symphony of trade, we then move on to the core discussion of logistics needs which are applicable overall for these regions.

INTRODUCTION

The supply chain is becoming more complex by the day posing new challenges at every step. With globalization and increased competition companies today are looking to focus on their core competencies. Logistics companies have a larger role to play with more and more aspects of business being outsourced. Logistics is an important part of Supply Chain Management. The scope of logistics is more or less restricted to the transportation and storage of goods. Despite of its limited scope logistics is the core of SCM. The evolution of logistics can be traced back in the era of 1950s and 1960s. At that time logistics was limited to transportation and warehousing. The transactions were mostly short-term in nature. In the 70s, the emphasis was on improved productivity, cost reduction and long-term contracts. The value added services such as packaging, labeling, systems support and inventory management were offered in the 1980s. Since the 1990s more value-added services are being offered. Some of them are import/export management, customs clearance, freight forwarding, customer service, rate negotiation, order processing, assembly/installation, distribution, order fulfillment, reverse logistics, consulting services that include distribution network planning, site selection for facility location, fleet management, freight consolidation, logistics audit etc. Logistics is an important factor of developed markets but the evolution of logistics can also be seen in the developing and emerging markets of the world. According to

the Emerging Markets Logistics Index 2013, the developing and emerging markets slowed in 2012 along with the rest of the global economy. It was because of the European crisis, stagnation in Japan and fiscal uncertainty in the United States. **PROBLEM STATEMENT** Developing countries are the fastest-growing markets in the world; yet, many multinational companies are trying to gain some competitive advantage of doing business in these nations. The dynamics of the so-called emerging markets will fundamentally change world trade in the future. The hub of global flows of goods as well as trade routes will shift towards the emerging markets. This trend, however, is often offset by increased logistics costs and delivery times, along with a growing number of complexities that need to be managed. Companies operating in emerging markets are at a crossroads in their development and are facing numerous strategic questions as well as logistics problems such as, manufacturing and distribution capacity is constrained by geography, transportation and logistics sophistication, physical infrastructure of roads, technological obstacles, government regulations, and protocol. Therefore this requires a complete logistics infrastructure that links robust, integrated systems throughout the drivers (plan, source, make, deliver and return) of supply chain.

OBJECTIVES

The complexities of managing logistics in emerging market locations ultimately add to the total landed costs of the associated goods. Therefore, the process of redesigning supply chain operations to establish logistics management capabilities in emerging markets is a fundamental dimension of a long-term business strategy. Components of this strategy should include

a focus on end-to-end integrated operations design and sound process discipline. Further, this focus should include a means to achieve flexibility, responsiveness and resiliency to enable more effective competition in today's environment of increasingly dynamic global business conditions. As you expand your geographic reach of global sourcing into emerging markets, you will likely encounter a growing number of supply chain and logistics challenges, many of which directly or indirectly contribute to a large portion of your supply chain total cost. We are going to see emerging markets continue to dominate the trends going forward, with respect to logistics. Trade lanes between emerging markets and regions, such as the Middle East, and countries like Brazil and China. A few years back, maybe those were not so developed, but they are really starting to come into their own. We are also going to see emerging markets continuing to grow and in some instances, there might be some countries which will overpass the more developed markets in logistics. Also, regions like Mexico and Southeast Asia are becoming platforms for doing things closer to home. So these are some trends that will persist over time. Actually, they will become more pronounced in the next couple of years.

SCOPE OF STUDY

Brazil

Brazil is a quickly developing country. The amount spent on logistical activities in Brazil alone exceeds the combined Gross Domestic Product (GDP) of several Latin American Countries. According to a recent study of World Bank, transportation activities alone amounted to more than \$US 50billion in 1999. It is worthy to note that a number of companies have

sprung up in Brazil as ' Contract-Logistics' or Third Party Logistics Service Providers. They are offering a vast range of services which are not limited to transportation only, but also include warehousing & basic distribution centers. Since the market deregulation of the 1990s, Brazil has seen fierce competition from amongst various companies. Those who were already in the market are now fighting for their sustainability because of the ever increasing number of independent domestic carriers & warehouse operators have emerged out of the blue in such a short span of time giving a tough time to the Logistics Market Leaders. A large number of these new entrants are providing outsourcing facilities for almost all types of services ranging from transportation to warehousing to distribution facilities.

Russia

Russia being one of the Super-Powers of the world, has failed to grow at quicker pace than other BRIC Countries i. e. (China, Brazil & India). The overall Economic growth was ranked at no. 7 in ' Emerging Markets Logistics Index' & according to the ' Transport-intelligence' Russia has been placed at no. 4 among the countries that conduct trade by Sea routes to US & EU Nations, but yet it has failed to become a more desirous country for the investors. Perhaps it is the dependency on Mineral & Oil Exports, which are not quite, frankly speaking; reliable in the long run. If Russia wants to remain as a favorable hub for logistical activities for the coming years, then it has to reduce its dependency on the Exportation of Natural resources & explore other regions on which the Economy can thrive on.

India

About Logistics Scope in India; several authors have stated various things for instance few examples are given below:

(Sirinivas, 2006)

' The Indian Economy has been growing at an average rate of more than 8% over the last four years.'

(Sanyal, 2006a)

' Logistics Costs i. e. (inventory, holding, transportation, warehousing, packaging, losses related to administration costs) have been estimated at 13-14% of Indian GDP, which is higher than 8% of USA's GDP & 21% lower than China's GDP' From the above two claims made by the authors, it is evident that Indian government is dead serious about expanding and exploiting the Logistics Sector. However if India wants to seriously attract investors, it has to improve Infrastructure & all the relevant costs. By doing this, it will achieve time and cost efficiency. Although Companies like Tata have created products such as Tata Ace, which is a mini-truck specially designed to suit the narrow alley ways of busy cities like Mumbai. Such an innovation has helped the Logistics Sector in achieving time efficiency. Transporters who own such trucks avoid heavy traffic of the main roads & instead can easily use alleys & streets as shortcuts to reach their destinations on time.

China

China is arguably the most successful & the quickest growing nation in terms of GDP growth rate. In 2009 it's GDP grew at 8. 7% and the Asian

Development Bank (ADB) predicted the GDP growth rate of China's Economy to be more than 9% in both the following years . i. e. 2010 & 2011. It is no secret that many investors are vying to invest more & more in China & the only reason for this is that the Government is providing all it can to develop the infrastructures & facilities that would be useful for the companies willing to operate in those cities.

LITERATURE REVIEW

Logistics is an important factor of developed markets but the evolution of logistics can also be seen in the developing and emerging markets of the world. According to the Emerging Markets Logistics Index 2013, the developing and emerging markets slowed in 2012 along with the rest of the global economy. It was because of the European crisis, stagnation in Japan and fiscal uncertainty in the United States. This all slowed down the growth but the economy of emerging markets were still better than those of the developed markets. According to the International Monetary Fund the developing and emerging markets on an average grew at 4. 4% where as the US economy grew at 2. 2%. The developing and emerging market continues to remain at the forefront for investors. The BRIC countries - Brazil, Russia, China and India remained dominant for investors, exporters, producers and logistic providers. The increase in the transportation cost is an integral part of production location decisions. Productions in the countries adjacent or close to major destination markets are again on rise as it helps in controlling cost. Markets close to the United States and Europe, such as Mexico and Turkey, are getting more attention. Demand in Europe, United States and other developed economies have weakened which means that the emerging

markets have been less able to depend on these countries as export markets. At the same time, several of the larger, more advanced emerging economies are getting more demand and have become attractive consumer markets. According to the Emerging Markets Logistics Index 2013, in this year emerging markets growth will still depend heavily on demand from Europe and the United States and the overall health of the global economy. Despite or because of political change, the " Arab Spring" countries will face significant hurdles before they become attractive investment opportunities. Sub-Saharan Africa will continue to gain increased attention, despite uneven performance.

ANALYSIS AND INTERPRETATION S

Analysis and interpretation is based on the research of the Emerging Markets Logistics Index 2013. China, India, Brazil, Saudi Arabia, Indonesia, United Arab Emirates, Russia and Malaysia ranked as the eight most attractive logistics markets among the 45 countries in the 2013 Index, retaining same rankings to those they held in the 2012 Index. Despite a decline in its overall score, China continues to take the top spot by some margin. The country has encountered a number of challenges in the face of the global economic downturn. Even so, growth has continued to outpace most of the world. China's continued dynamism is reflected in its market size and growth attractiveness score. China continues to outperform every other market. China also ranks highly in terms of connectedness, retaining second place for this sub-index. China's persistent and growing gap in income disparity hurt its market compatibility rating. India remains second in the rankings, and its overall score showed nearly no change. India's rank is largely attributed to

its market size. India's score for market compatibility increased quite significantly in the 2013 Index, as the country benefitted from an increase in foreign direct investment and improvements in security levels. Poor transportation and logistics infrastructure hurts India's connectedness score, an area where it compares unfavorably to the other BRIC countries. Brazil remains third in the 2013 Index. Like the rest of the BRIC economies, Brazil has experienced a slowdown due to global uncertainty. The country experienced slower GDP growth than other Latin American countries through 2011 and 2012. In particular, Brazilian manufacturing has suffered as a result of weakened global export demand. Saudi Arabia only saw a minor decline in its overall score. It experienced a decline in foreign direct investment because financing became difficult during the economic slowdown. At the same time, growth in the overall economy led to an increase in Saudi Arabia's market size and growth attractiveness, helping it overtake Thailand in that area. Russia improved its score in 2013 more than China, India and Brazil, but it remained at No. 7 in the rankings. Russia's economy has continued to grow over the past two years, helped by favorable prices for commodities such as oil, gas and minerals. Russia's reliance on natural resources is not sustainable in the long term. Russia's economic ability to produce solid growth depends on the country's ability to strengthen areas of the economy outside the energy and mining sectors. Mexico moved up one place in the 2013 rankings to ninth position. Its improvement follows two consecutive years' of decline. Mexico has benefitted from an increase in U. S. demand; in particular, automotive manufacturing has increased. Lower labour and taxes have brought interest from high tech and aerospace manufacturers. The "near-sourcing" trend benefits Mexico. Some American

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companies want to move production closer to the end market. This trend may also be benefitting Turkey, which moved up one place in this year's rankings. Turkey's closeness to Europe makes it attractive as a low-cost manufacturing location. South Africa's 15th ranking was unchanged. South Africa's institutional weaknesses and social problems have worsened and damaged the economy. In market compatibility which is driven by key development indicators, South Africa ranks below average. The country's position relative to other emerging economies is expected to suffer over the coming year as the impact of recent unrest is felt. The Arab Spring countries of Egypt and Tunisia have fallen down in the 2013 rankings. Egypt fell nine places, experiencing across-the-board declines in the metrics that make up the rankings. Security risks pose an increased threat to potential investors, a main reason for the declining performance of these countries. Bahrain, also affected by domestic unrest, fell five places, despite a strong infrastructure and transport network. Kazakhstan continued to move up the rankings in 2013 to 18th position. Morocco and Ukraine also moved up in the rankings this year, both climbing four places. Considering the overall size of its economy, Morocco scores reasonably well in terms of market compatibility and connectedness. Sri Lanka was also added to the Index this year at number 30th. Sri Lanka came in ahead of Pakistan and Bangladesh. For a small economy, the country scores well in terms of market compatibility and connectedness. For market compatibility Sri Lanka scores higher than any Asian country except for China. Following a long, brutal civil war, the country has experienced strong economic growth and put security threats behind it. Even so, Sri Lanka has not yet been able to draw levels of foreign direct investment comparable to those attracted by countries of similar size and

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potential. With the exception of South Africa, the Sub-Saharan African countries included within the Index all place near the bottom of the rankings. Nigeria remained stable at 33rd in the 2013 Index. The country scores well in terms of market size and growth attractiveness and increased its score for the index this year. However, Nigeria continues to be held back by political problems, corruption and weak infrastructure. In contrast, Tanzania and Ethiopia, although small, score reasonably well in market compatibility. Uganda was added to the Index this year, and scores poorly in all areas. That does not mean opportunities do not exist there. Uganda has an abundance of natural resources and is forecast for strong economic growth in coming years.

FINDINGS

After going through with the evaluation of various articles & documents, it has been found that the situation of Logistics in 2012 was on the downside; although it was not growing as quite expected, yet it had managed to grow at a trotting pace. However certain findings which are based on the ' Emerging Markets Logistics Index', which was compiled by the Transport Intelligence (Ti) - a London based group; is that the shippers are skeptical and have taken quite a vigilant approach towards investing in Logistics. According to Jon Manners-Bell, CEO of Ti: ' Trade & Logistics Professionals remain wary about prospects of global growth in the 2013. 46% said they believe there will be a modest expansion, with 47% predicting global GDP would be flat. Prospects for the European Union (EU) look bleak. It has been noted that Brazil, China & India, three of the four BRIC countries have been estimated to remain the financial hub over the next 5 years. Although there

are other notable shifts in the Global Logistics which are as follows:

Indonesia has reached no. 5 from no. 10 Bangladesh has reached no. 12 from no. 25 Thailand has reached no. 14 from no. 29 Apart from this it has also been noted that investors are trying to shift more towards the second tier of Logistics Markets, which includes countries like KSA, UAE, Malaysia, Mexico & Turkey, despite the fact that BRIC countries are more alluring; the investors are vying to move towards the above mentioned group of countries for the following reasons:

Brazil

Although Brazil is considered to be one of the fastest growing countries in terms of GDP growth. Its exports include equipments for aircrafts & automobile industry, electrical equipments, Ethanol, Textiles, Juice, Soybeans & Corned beef. It ranks on Rank 23 in terms of Exports & also possesses World's 4th Largest Automobile Industry, but despite all these facts grim reality is that the Exports of Brazil are gradually slowing down, which means in the coming years Brazil's pace of growth will decrease. Brazil has been facing the following challenges:

China

As of 2013, China is World's Second Largest Economy in terms of GDP growth, which total to approximately US \$ 8. 227 trillion as per International Monetary Fund (IMF). China alone hosts 9/25 or 36% of World's Most busiest container ports. All this information may be astounding but the reality is otherwise. China is facing several problems such as: Labor Rights Issue, Rising Labor Rates & shortage of skills, Growing gap of income

disparity All of these stated problems have posed troubles for the growth of Global Logistics in the country.

India

India is one of the fastest growing Economies of the World, with a GDP growth rate of 6.12% in period of 2011-2012. India is 19th Largest Exporter with products including Petroleum Products, Textile Goods, Jewellery, Software Goods, Engineering Goods, Chemicals, Leather. However India too is not free from the Logistical Challenges. Some of these Challenges are as follows: Weak infrastructure Constant interference of Bureaucrats & Government Departments into the Industrial Sector Corrupt Government Politics & Law & Order Situation All of these reasons have equally contributed in becoming one of the prime reasons for India not being able to reach the top 10 Exporters of the World.

Russia

Russia being the 8th largest Economy of the World, Russia had a GDP growth rate of 7% at average from a period of 2000-2008. Russia has a vast Export base ranging from Agricultural to Advanced High-Tech Systems. The problem Russia is facing is that there oil & mineral resources are depleting, exports would soon be limited to Agricultural Products & Scientifically Advanced Products, in both cases there is a large number of Competitors competing in the international market. Apart from this few other reasons are as follows: Investors Dread the Presence of Mafia Lack of Law & Order Lack of Trust in the Government

CONCLUSION

Evolution of logistics in developing and emerging markets shows us that logistics has been the area which has enabled the D&E markets to develop continuously even when the global economy was facing recession the D&E markets performed better than the rest of the developed countries; the GDP and other KPI's are the evidence of their growth. Logistics has been the source by which countries like China, India, and Brazil etc have been growing and developing. China continues to outperform every other market. India has shown the potential of becoming the leader in economic growth as the governments is concentrating on improving the infrastructure and developing trade routes so that it can maximize the profits that it deserves. At the end it has been found out that logistics is one of the core area for any market in order to develop and grow without well managed logistics growth to the desired extent is not possible as logistics is directly related to the cost of the goods and also the availability of the goods to the customers. Hence without improving logistics operation no under developed market can come under D&E market.

RECOMMENDATIONS

D&E markets are the future hubs of trade and other economic activities. As a potential hub the logistics should be given a great importance. There are some steps which should be taken in order to improve the logistics operations and activities in D&E markets these steps are as follows. Making order to delivery lead-time The amount of time between ordering and receiving their goods is vital. D&E markets can be of great profit as the lead time between order and delivery is minimize infrastructure and law and

order situation of the region plays a great role in achieving the delivery lead time. Modes of transport D&E markets can be able to offer their customers different level of service that suits their customer's transport need, it may help their business avoid unnecessary cost and missing key revenue opportunities. Trade Routes Trade routes should be developed so that the delivery of the goods can be made on time and also risk is reduced.

Warehousing Facilities

Development of warehouses is also a need for D&E market as keeping in view the future trades. There are also other steps that can be taken to improve the logistics operations but the above mention steps are of core importance. In D&E markets if these steps are taken D&E markets can grow and can become the future leaders in global economy.