AGILITY EMERGING MARKETS LOGISTICS

index

2024

Agility

Saudi Arabia sees the most progress in diversifying its economy

China-India gap starts to close

Emerging market *economies growing at a faster rate than rest of the world*

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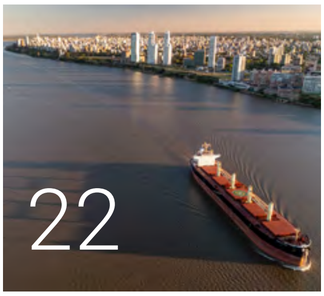


Key Findings

From investment in Africa to global recession predictions, our key findings section offers a brief look at some of the facts and data to emerge from our research.

40% The International Finance Corporation has estimated that 40% of SMEs in developing countries have an unmet financing need of $5.2 trillion every year.

Around half of SMEs don't have access to any formal credit agreements – a state which severely limits the ability to export goods.

Read more on p.27

Black & Decker moves Shenzhen facility to Texas

Supply chain decisions are no longer being made predominantly on the basis of access to large scale, low cost labour or a simple trade off against the costs of transport products from remote parts of the world to Western consumer markets.

All industry sectors are being affected in one way or another with manufacturers opting for 'China plus' alternatives, near-sourcing or re-shoring.

Tool manufacturer Black & Decker, which closed its factory in Shenzhen and opened a new facility Texas, is one example of this trend.

Read more on p.17

China India gap starts to close

China remains at the top of the Emerging Markets Index, however, compared to last year, meaningfully fewer respondents selected it as the region with the strongest economic growth in the year ahead. China is closely followed by India as the region with the second strongest economic growth, making the gap between these two regions much smaller compared to previous years.

Apple has already increased its iPhone manufacturing coming out of India to 7% in 2023, and is looking to produce 25% of its iPhones in the country by 2025. Another example is Tesla which has reportedly expressed interest in building a factory in India that would produce low-cost electric vehicles (EVs) for the local market and for export.

Read more on p.34

267% Saudi Arabia has seen the most progress in diversifying its economy over the past decade, followed by the UAE and Qatar. As a result of a new set of laws in Saudi Arabia to promote entrepreneurship and reduce the costs of doing business, new investment deals and licenses grew by 95% and 267% in 2022 respectfully.

Read more on p.46

Wage growth plateaus in developed economies

According to survey results, 'increased costs in new sourcing and procurement locations' represents the main risk involved in a diversification strategy, followed by 'greater competition from established or emerging players within new markets'.

Emerging market economies are growing at a faster rate than the rest of the world. The accompanying wage pressure, due partially to increased demand for skilled labour, is pushing wages up.

According to the IMF, wages in China, India, Indonesia, and Thailand will likely continue to outpace inflation, whereas wage growth across developed economies is plateauing or declining, which will only narrow the wage gap between emerging and developed economies.

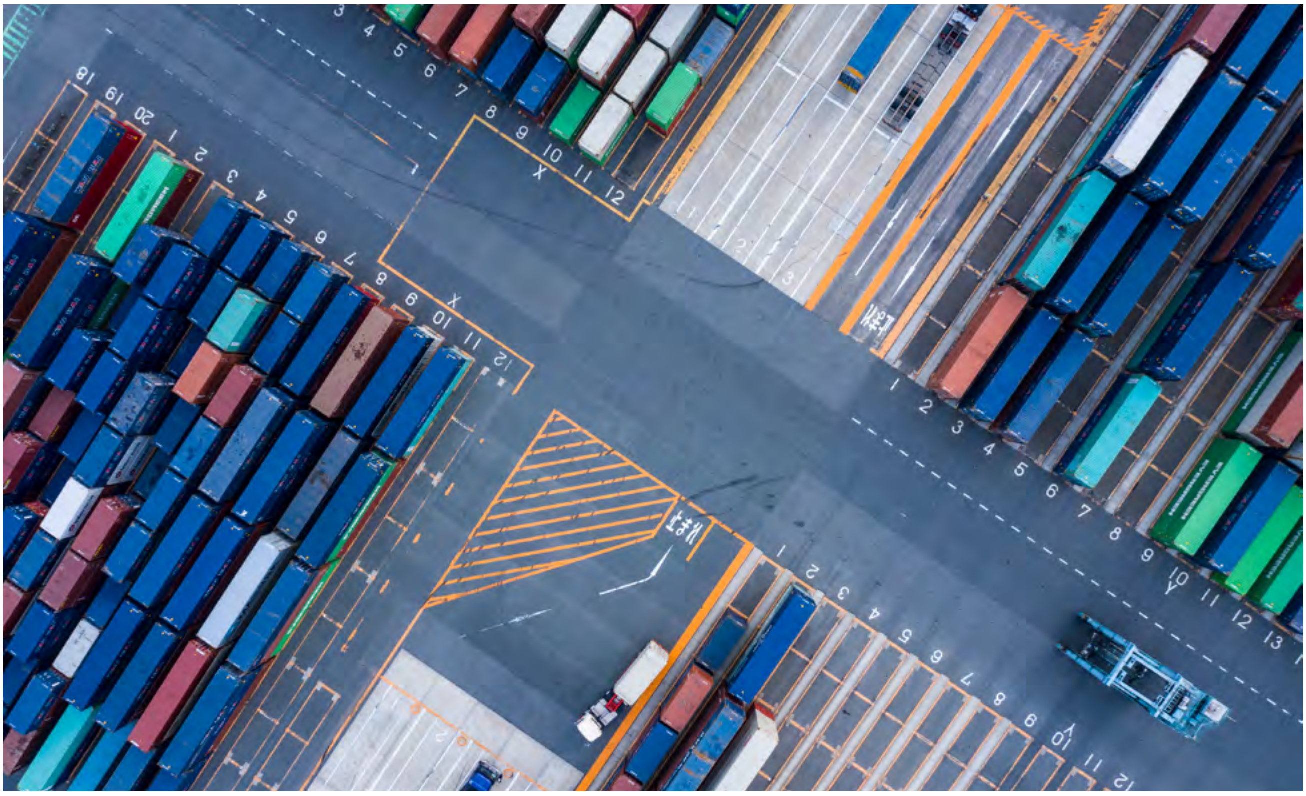
Read more on p.39

South Korea pledges $6bn in African projects to reduce reliance on China

South Korea has pledged to extend $6bn in financing for African projects, in a move to reduce its heavy reliance on China for core minerals and contain China's influence in the global manufacturing supply chain.

The UK has announced plans to invest US$ 2bn in sustainable projects across Africa, while the US has pledged an initial US$ 200bn for its partnerships for Global Infrastructure Initiative. These initiatives are expected to create an influx of MNCs into major cities across Africa.

Read more on p.48



49.4% Combining all responses that predict a recession shows that almost half of survey respondents expect a global recession in the year ahead. Conversely, around a quarter of respondents believe that the global economy will escape recession in 2024 and see moderate to strong growth. The forecast of a recession from 49.4% of respondents comes amidst sharp growth slowdowns across the largest economies.

Read more on p.32

Digital forwarders lose points on services but continue to gain market share

In a continuing trend from last year, respondents suggest that digital forwarders are yet to consistently improve their offering when compared to traditional forwarders in some areas. These include 'Exception/Error management' and 'Value-added services'.

Looking ahead to 2028, the volumes shipped and booked through digital forwarders will further increase from the current average of 37.8% to 52.0%.

However, a note of caution is sounded by respondents. At the end of 2022, volumes shipped and booked through digital forwarders amounted to 47.7%, which represents a drop of 9.9 percentage points compared to 2023.

Read more on p.49

India is winning the renewable energy race

Renewable electricity is growing at a faster rate in India than any other major economy, with new capacity additions on track to double by 2026. The country is also one of the world's largest producers of modern bioenergy and has big ambitions to scale up its use. The IEA expects India to overtake Canada and China in the next few years to become the third largest ethanol market worldwide after the United States and Brazil.

According to our survey, 'Reducing energy consumption', 'waste reduction/recycling' and 'Increasing the use of renewables as a % of our energy consumption' are the three most common sustainability initiatives that companies plan to undertake in 2024 priorities in emerging markets.

Read more on p.54

71.7%

71.7% of survey respondents have stated that their logistics cost are higher compared to 2022, whereas 73.5% stated cost are higher compared to pre-Covid. Over a third of supply chain executives report that their logistics costs are 1-15% higher compared to 2022.

Costs are still well above pre-Covid levels, with 32.1% of supply chain executives reporting increases between 15%-40%.

Read more on p.35

Bad visibility in Latin America Supply Chain leads to drop in sales by 20%

The Latin American operations of one of the world's largest beverage companies in 2023 saw a reduction in sales of 20%.

Whilst this was in part due to trends which led to less consumption, what particularly unsettled the company's investors was the lack of management's supply chain visibility in the region, leaving them seemingly unprepared for the downturn. This resulted in an initial drop in share price of more than 10%.

Management discovered that whilst it had good visibility in inventory levels through its distributors, it had less visibility to inventory at wholesale and retailers that they sold to.

Read more on p.20

$4.3 tn needed to meet the UN's sustainability goals

There is great concern that the European Union's Carbon Border Adjustment Mechanism (CBAM) and the Emissions Trading Scheme (ETS) will harm trade with many countries by levying a border tax and making international transport more expensive. Discouraging investment for ESG projects in the Emerging world is obviously counterproductive.

According to the United Nations Conference on Trade and Development (UNCTAD) there is an annual shortfall of $4.3 trillion in investment needed to meet the UN's sustainable development goals. If investors pull out of these markets, there is also the possibility that those which are less concerned about sustainability will move in to fill the void.

Read more on p.31

Introduction from Tarek Sultan, Vice Chairman, Agility

The 15th edition of our annual Agility Emerging Markets Logistics Index is sobering. It contains a number of important cautions for those who invest in and care about the world's developing economies.

Taken together, the data and our survey of 830 logistics industry executives represent flashing warning lights about the fragile state of the global economy, ongoing trade fragmentation, and emerging markets debt, among other issues.

The results of the 2024 Index signal that global trade and the body responsible for the rules-based trading system -- the World Trade Organization – are at a crossroads as companies struggle to harden their supply chains through near-shoring, re-shoring, friend-shoring and other production/sourcing strategies.

When WTO ministers meet in February in Abu Dhabi, the agenda will include negotiations on e-commerce rules and subsidies for grain and fisheries. Those issues mask deeper fundamental divisions about the overall direction of global trade, the viability of current rules and dispute resolution mechanisms, and the possibility that the supply chain de-risking we are witnessing becomes a de-coupling of the world's largest economies and a split along East-West lines.

De-coupling and the fragmentation of global trade would be a disaster for emerging markets countries. They will feel pressure to pick sides if China, the United States, the European Union and India can't rebuild trust and work through sharp disagreements about big issues, including:

- Non-market aspects of China's economy
- Competition to lead the clean energy revolution
- Disruption from the likely imposition of future carbon taxes

As the Index indicates, our survey "highlights the intensity of the uncertainty gripping the global economy." Half of the respondents believe a global recession is likely or a certainty in 2024. A larger percentage see emerging markets investments as riskier today than in recent years. And most continue looking for ways to alleviate risk by restructuring their supply chains.

It's not all bad news. There is surging optimism about India's growth prospects despite reservations about its infrastructure. Saudi Arabia and UAE stand out as bright spots, separating themselves from competitors and neighbors through investment, innovation, sustainability and business-friendly reform. Likewise, there's growing acceptance of digital freight options, along with increasing recognition by businesses of the need to get serious about their climate strategies.

Globalization has gotten a bad rap in recent years. But the globalization of trade and supply chains was underpinned by two assumptions that remain as valid as ever. First, trade generates prosperity and reduces poverty. Second, trade helps secure peace because nations that trade with each other seldom fight.

So as you read the 2024 Index, please keep in mind what WTO Director-General Ngozi Okonjo-Iweala says: "The case for strengthening the trading system is far stronger than the case for walking away from it."

Introduction from John Manners-Bell, CEO, Transport Intelligence

There is a growing realisation within the global supply chain community that a return to 'business as usual' after Covid is increasingly unlikely. The development of a multipolar world in which emerging markets such as China, India, Saudi Arabia and Turkey are flexing their economic muscles has created political tensions, often materialising in trade disputes, and this has already resulted in changing patterns of goods flows. As well as this, in many parts of the emerging world ethnic and territorial disputes, often simmering for generations, have boiled over into conflict. Whilst many have only localized implications, some, such as the proxy war in Yemen with its impact on ships transiting the Suez Canal, are having wider consequences upon global supply chains. Whatever the long term effects on the shipping industry, such developments only act to highlight the increasing risks which businesses now have to factor into their sourcing and off-shoring decisions.

Whilst the geo-political landscape has become more complex and dangerous, the world's economy is still suffering the consequences of Covid-related fiscal stimulus packages which brought first a wave of consumer spending and then a spike in inflation. The resulting higher interest rates imposed by the central banks have had worldwide implications, for instance making it difficult for many exporters in the emerging world to gain access to trade finance and distorting exchange rates.

However, the new environment is also bringing opportunities, driven by structural changes in supply chain strategy. For instance, manufacturers supplying the US market are increasingly using suppliers located in Mexico or establishing new factories there. Shorter logistics systems are regarded as innately more resilient than those which stretch around the world or transit unstable regions. Likewise, alternative markets are being sought to China and India is one of the most popular destinations for new investment. Other countries to benefit from this trend include Vietnam, Indonesia and Bangladesh. More than ever, businesses need to be alive to the opportunities and threats which exist in emerging markets and use data, such as that provided by the Agility Emerging Markets Logistics Index, to inform agile decision-making.

Key Measures

To assess and understand these trends and their effects on 50 of the world's most promising emerging logistics markets, the Agility Emerging Markets Logistics Index 2024 examines four key areas for logistics market development:

- Domestic Logistics Opportunities
- International Logistics Opportunities
- Business Fundamentals
- Digital Readiness

It presents a data-driven analysis of 50 of the world's most promising emerging logistics markets, reflecting the complexity, connectedness and opportunities each market provides.

As data visibility increases, the Ti Data Team is able to improve the accuracy of the models for each Index which, along with unprecedented volatility in the industry, instability in the global economy and effect of digital acceleration post Covid-19 has led to more movement in some areas of the Index than we are used to seeing.

Domestic Logistics Opportunities – measures the performance of each emerging market and its potential to sustain and develop domestic demand that requires competitive logistics markets:

- Domestic logistics markets – size & growth
- Economy – size & growth
- Population – size & growth
- Income equality
- Urbanisation
- Development of business clusters

International Logistics Opportunities – measures internal and external demand for trade intensive logistics services and the capacity of individual emerging markets to facilitate cross-border logistics operations:

- International logistics markets – size & growth
- Logistics intensive trade – size & growth
- Infrastructure quality and connectedness
- Border procedures – time & cost

Business Fundamentals – measures the openness, robustness, fairness and strength of each emerging market's business environment, rule of law and market independence:

- Regulatory environment
- Credit rating
- Contract enforcement & anti-corruption frameworks
- Inflation & price stability
- Cost of crime & violence
- Market accessibility & domestic stability

Digital Readiness – measures the potential and progress of an emerging market in becoming a digitally-led, skills rich, innovation-oriented and sustainable economy for the future:

- Emissions intensity
- Renewable energy mix
- Digital business models & online commerce
- Entrepreneurial risk
- Digital skills & human capital
- Availability of enterprise financing

Each year, the Agility Emerging Markets Logistics Index utilises a unique set of variables that measure current, short-and medium-term performance across structural and cyclical factors in each country's logistics markets and key vertical sectors. As a result, the Index provides a snapshot of each country's current performance and future potential as a globally significant logistics market and investment destination. To determine the ranking of the 50 leading global emerging logistics markets, current and forecast data from world-leading institutions including Transport Intelligence (Ti), the World Bank, the International Monetary Fund (IMF), the World Economic Forum (WEF) and others are used.

By combining current and forecast data, this 2024 edition of the Index continues to assess each market's ability to survive or thrive in a period of unprecedented volatility.

With the addition of the Digital Readiness ranking introduced in 2022, and the subsequent enhancements of this model through more data visibility, the Agility Emerging Markets Logistics Index 2024 also provides a unique perspective on the suitability and preparedness of each emerging market to participate in the still challenging global economy. It is within this sub-Index that we have seen the most change, often due to the significant adoption of e-commerce resulting from the Covid-19 pandemic.

In addition, by ranking each emerging market against the 49 others, the Index highlights strong performers and demonstrates where markets have developed enduring advantages. It also reveals those markets which have seen performance and potential erode.

The Agility Emerging Markets Logistics Index – Overall Ranking

Rank	Rank Change	Country	Overall Score	Last Year's Score	Domestic Opportunities	International Opportunities	Business Fundamentals	Digital Readiness
1	0	**China**	8.61	8.31	8.54	9.08	6.71	8.07
2	0	**India**	7.21	7.43	7.86	7.60	6.35	6.28
3	0	**UAE**	6.49	6.59	5.52	6.10	8.71	6.88
4	0	**Malaysia**	6.17	6.16	5.25	6.03	7.84	6.55
5	0	**Indonesia**	6.16	6.08	6.33	6.34	6.07	5.70
6	0	**Saudi Arabia**	6.05	6.07	5.41	6.11	7.28	6.02
7	0	**Qatar**	5.85	6.02	5.72	4.93	7.21	6.36
8	+2	**Vietnam**	5.73	5.52	5.26	6.44	6.03	5.20
9	0	**Mexico**	5.60	5.55	5.37	6.25	5.41	5.16
10	-2	**Thailand**	5.59	5.67	5.13	5.96	5.51	5.87
11	0	**Turkey**	5.45	5.49	5.24	5.49	5.59	5.62
12	+1	**Chile**	5.39	5.43	4.81	5.15	6.94	5.46
13		**Russia**	5.34	5.18	5.04	5.62	5.17	5.53
14	+5	**Brazil**	5.29	5.17	5.46	5.75	4.21	5.21
15	-3	**Oman**	5.27	5.46	4.96	4.96	6.22	5.48
16	-2	**Bahrain**	5.22	5.31	4.92	4.68	6.68	5.34
17	-1	**Jordan**	5.19	5.19	4.84	4.59	6.95	5.25
18	0	**Philippines**	5.06	5.18	5.06	5.22	4.23	5.50
19	+4	**Uruguay**	5.04	4.98	4.84	4.44	6.37	5.18
20	+1	**Egypt**	5.04	5.06	5.18	4.72	5.83	4.65
21	-6	**Kuwait**	5.03	5.25	4.90	4.64	5.64	5.33
22	-2	**Morocco**	4.99	5.08	4.59	5.00	6.10	4.72
23	-1	**Kazakhstan**	4.99	4.99	4.67	4.51	6.07	5.34
24	0	**South Africa**	4.97	4.94	4.67	5.14	5.24	4.99
25	0	**Kenya**	4.91	4.86	4.66	4.49	5.23	5.69
26	+4	**Sri Lanka**	4.88	4.66	4.71	4.89	4.67	5.32
27	+1	**Colombia**	4.85	4.75	4.73	5.02	4.96	4.68
28	-1	**Peru**	4.83	4.78	4.72	5.04	4.87	4.67
29	-3	**Pakistan**	4.82	4.81	5.20	4.60	4.42	4.88
30	+1	**Argentina**	4.68	4.66	4.83	4.72	4.17	4.78
31	-2	**Ghana**	4.65	4.72	4.66	4.42	5.09	4.66
32	+6	**Cambodia**	4.65	4.46	4.56	4.49	4.44	5.16
33	+2	**Bangladesh**	4.61	4.53	5.06	4.37	3.90	4.82
34	+8	**Ukraine**	4.60	4.40	4.34	4.49	4.95	4.90
35	+4	**Ecuador**	4.56	4.46	4.52	4.63	4.51	4.54
36	-2	**Nigeria**	4.52	4.55	5.10	4.22	3.97	4.45
37	-5	**Tunisia**	4.50	4.60	4.55	4.33	5.04	4.25
38	-5	**Lebanon**	4.50	4.58	4.66	4.44	4.01	4.72
39	+1	**Paraguay**	4.49	4.46	4.51	4.28	4.43	4.83
40	-4	**Iran**	4.48	4.50	4.81	4.19	3.89	4.84
41	-4	**Tanzania**	4.43	4.47	4.74	4.05	4.69	4.30
42	-1	**Algeria**	4.39	4.45	4.79	4.22	4.50	3.93
43	0	**Uganda**	4.32	4.29	4.58	4.15	3.97	4.44
44	0	**Bolivia**	4.29	4.14	4.60	4.30	3.85	4.12
45	0	**Ethiopia**	4.10	4.07	4.64	4.18	2.98	3.99
46	0	**Mozambique**	3.89	3.76	4.33	4.31	2.55	3.60
47	+1	**Angola**	3.77	3.71	4.40	4.16	2.75	2.99
48	-1	**Venezuela**	3.71	3.75	4.62	3.79	1.47	3.90
49	0	**Myanmar**	3.67	3.68	4.45	4.23	1.74	3.09
50	0	**Libya**	3.54	3.35	4.62	4.20	1.63	2.35

Domestic Opportunities

Rank	Country	Score	Change
1	**China**	8.54	0
2	**India**	7.86	0
3	**Indonesia**	6.33	0
4	**Qatar**	5.72	0
5	**UAE**	5.52	0
6	**Brazil**	5.46	0
7	**Saudi Arabia**	5.41	0
8	**Mexico**	5.37	0
9	**Vietnam**	5.26	+7
10	**Malaysia**	5.25	-1
11	**Turkey**	5.24	+2
12	**Pakistan**	5.20	-2
13	**Egypt**	5.18	-1
14	**Thailand**	5.13	0
15	**Nigeria**	5.10	-4
16	**Bangladesh**	5.06	+1
17	**Philippines**	5.06	+1
18	**Russia**	5.04	
19	**Oman**	4.96	+2
20	**Bahrain**	4.92	0
21	**Kuwait**	4.90	-6
22	**Jordan**	4.84	0
23	**Uruguay**	4.84	+5
24	**Argentina**	4.83	0
25	**Iran**	4.81	+12
26	**Chile**	4.81	-1
27	**Algeria**	4.79	-4
28	**Tanzania**	4.74	+5
29	**Colombia**	4.73	+1
30	**Peru**	4.72	-1
31	**Sri Lanka**	4.71	+8
32	**Kazakhstan**	4.67	-1
33	**South Africa**	4.67	-6
34	**Kenya**	4.66	+2
35	**Lebanon**	4.66	-9
36	**Ghana**	4.66	-1
37	**Ethiopia**	4.64	+9
38	**Venezuela**	4.62	+2
39	**Libya**	4.62	+2
40	**Bolivia**	4.60	+5
41	**Morocco**	4.59	-9
42	**Uganda**	4.58	+5
43	**Cambodia**	4.56	0
44	**Tunisia**	4.55	-10
45	**Ecuador**	4.52	-7
46	**Paraguay**	4.51	-4
47	**Myanmar**	4.45	-3
48	**Angola**	4.40	0
49	**Ukraine**	4.34	0
50	**Mozambique**	4.33	0

International Opportunities

Rank	Country	Score	Change
1	**China**	9.08	0
2	**India**	7.60	0
3	**Vietnam**	6.44	+1
4	**Indonesia**	6.34	+2
5	**Mexico**	6.25	-2
6	**Saudi Arabia**	6.11	+3
7	**UAE**	6.10	0
8	**Malaysia**	6.03	0
9	**Thailand**	5.96	-4
10	**Brazil**	5.75	+1
11	**Russia**	5.62	
12	**Turkey**	5.49	-2
13	**Philippines**	5.22	0
14	**Chile**	5.15	0
15	**South Africa**	5.14	+3
16	**Peru**	5.04	-1
17	**Colombia**	5.02	0
18	**Morocco**	5.00	-2
19	**Oman**	4.96	+1
20	**Qatar**	4.93	-1
21	**Sri Lanka**	4.89	+1
22	**Argentina**	4.72	+8
23	**Egypt**	4.72	0
24	**Bahrain**	4.68	0
25	**Kuwait**	4.64	+3
26	**Ecuador**	4.63	0
27	**Pakistan**	4.60	+2
28	**Jordan**	4.59	-7
29	**Kazakhstan**	4.51	-4
30	**Cambodia**	4.49	+4
31	**Kenya**	4.49	-4
32	**Ukraine**	4.49	+11
33	**Lebanon**	4.44	-2
34	**Uruguay**	4.44	+2
35	**Ghana**	4.42	+2
36	**Bangladesh**	4.37	-3
37	**Tunisia**	4.33	-5
38	**Mozambique**	4.31	+1
39	**Bolivia**	4.30	-4
40	**Paraguay**	4.28	+2
41	**Myanmar**	4.23	+4
42	**Nigeria**	4.22	-2
43	**Algeria**	4.22	+3
44	**Libya**	4.20	+6
45	**Iran**	4.19	+3
46	**Ethiopia**	4.18	-8
47	**Angola**	4.16	-3
48	**Uganda**	4.15	-7
49	**Tanzania**	4.05	-2
50	**Venezuela**	3.79	-1

Business Fundmamentals

Rank	Country	Score	Change
1	**UAE**	8.71	0
2	**Malaysia**	7.84	+2
3	**Saudi Arabia**	7.28	0
4	**Qatar**	7.21	-2
5	**Jordan**	6.95	+4
6	**Chile**	6.94	+2
7	**China**	6.71	0
8	**Bahrain**	6.68	-2
9	**Uruguay**	6.37	+4
10	**India**	6.35	+4
11	**Oman**	6.22	-6
12	**Morocco**	6.10	-2
13	**Kazakhstan**	6.07	-1
14	**Indonesia**	6.07	+2
15	**Vietnam**	6.03	+4
16	**Egypt**	5.83	+2
17	**Kuwait**	5.64	-6
18	**Turkey**	5.59	-3
19	**Thailand**	5.51	-2
20	**Mexico**	5.41	+5
21	**South Africa**	5.24	+2
22	**Kenya**	5.23	+2
23	**Russia**	5.17	-3
24	**Ghana**	5.09	-2
25	**Tunisia**	5.04	-4
26	**Colombia**	4.96	+2
27	**Ukraine**	4.95	+12
28	**Peru**	4.87	+2
29	**Tanzania**	4.69	-3
30	**Sri Lanka**	4.67	+2
31	**Ecuador**	4.51	-2
32	**Algeria**	4.50	-5
33	**Cambodia**	4.44	+3
34	**Paraguay**	4.43	0
35	**Pakistan**	4.42	+3
36	**Philippines**	4.23	-3
37	**Brazil**	4.21	0
38	**Argentina**	4.17	-3
39	**Lebanon**	4.01	+2
40	**Uganda**	3.97	0
41	**Nigeria**	3.97	+2
42	**Bangladesh**	3.90	+2
43	**Iran**	3.89	-12
44	**Bolivia**	3.85	-2
45	**Ethiopia**	2.98	0
46	**Angola**	2.75	+3
47	**Mozambique**	2.55	-1
48	**Myanmar**	1.74	-1
49	**Libya**	1.63	-1
50	**Venezuela**	1.47	0

Digital Readiness

Rank	Country	Score	Change
1	**China**	8.07	+3
2	**UAE**	6.88	0
3	**Malaysia**	6.55	0
4	**Qatar**	6.36	+1
5	**India**	6.28	-4
6	**Saudi Arabia**	6.02	0
7	**Thailand**	5.87	+1
8	**Indonesia**	5.70	-1
9	**Kenya**	5.69	+3
10	**Turkey**	5.62	+4
11	**Russia**	5.53	+11
12	**Philippines**	5.50	-3
13	**Oman**	5.48	-3
14	**Chile**	5.46	-1
15	**Kazakhstan**	5.34	+10
16	**Bahrain**	5.34	0
17	**Kuwait**	5.33	-6
18	**Sri Lanka**	5.32	+5
19	**Jordan**	5.25	+1
20	**Brazil**	5.21	-2
21	**Vietnam**	5.20	-6
22	**Uruguay**	5.18	-5
23	**Cambodia**	5.16	+8
24	**Mexico**	5.16	0
25	**South Africa**	4.99	+2
26	**Ukraine**	4.90	+3
27	**Pakistan**	4.88	-1
28	**Iran**	4.84	-9
29	**Paraguay**	4.83	+3
30	**Bangladesh**	4.82	+5
31	**Argentina**	4.78	+3
32	**Morocco**	4.72	+1
33	**Lebanon**	4.72	-3
34	**Colombia**	4.68	+5
35	**Peru**	4.67	+2
36	**Ghana**	4.66	-15
37	**Egypt**	4.65	-9
38	**Ecuador**	4.54	+4
39	**Nigeria**	4.45	-3
40	**Uganda**	4.44	+1
41	**Tanzania**	4.30	-3
42	**Tunisia**	4.25	-2
43	**Bolivia**	4.12	+3
44	**Ethiopia**	3.99	+1
45	**Algeria**	3.93	-1
46	**Venezuela**	3.90	-3
47	**Mozambique**	3.60	0
48	**Myanmar**	3.09	+1
49	**Angola**	2.99	-1
50	**Libya**	2.35	0

Movers + Shakers

Overall Index:

What happened to the biggest movers? The biggest movers in the overall index were driven by a range of factors, most notably: shifting trade patterns, infrastructure improvements, safety and security metrics, and improved start-up and digital environments. Examples include Ukraine, with the latest data portraying a less catastrophic picture than last year, resulting in a partial rebound in the index. Cambodia gained from new world trade patterns, infrastructure improvements, and an increase in safety and security scores. Brazil's consistent performance across various metrics in a year when many countries faltered allowed it to rise in the rankings. Whilst Russia remains within the methodological structure we have shown it here in grey since trade and international opportunities are limited due to the on-going war with Ukraine.

Domestic Opportunities:

What happened to the biggest movers? A more stable 2022 facilitated partial rebounds for Sri Lanka and Iran after experiencing significant declines in last year's index. Rising infrastructure scores provided tailwinds for Vietnam, Sri Lanka, and Cambodia. Low domestic logistics market growth was a major factor that pushed down South Africa, Kuwait, Ecuador, and Morocco.

International Opportunities:

What happened to the biggest movers? Measures to protect international trade allowed Ukraine to claw back some of the places it lost last year. Conflict in Ethiopia has deterred foreign direct investment (FDI), and in addition to a credit rating downgrade, the country slipped down the international sub-index. While Argentina is struggling domestically, international trade growth and new export incentives pushed the country up.

Business Fundamentals:

What happened to the biggest movers? Mexico benefited from infrastructure investment, in addition to a strong HHI (Herfindahl–Hirschman index) score suggesting the market is becoming increasingly competitive and accessible. Ukraine rebounded somewhat thanks to new numbers that more accurately reflect the reality of life in the country. Greater coverage of safety and security metrics saw Jordan and Uruguay moving upward during a time when security scores fell in many other countries. Uruguay also rose thanks to strong credibility and quality scores for domestic institutions. Protests and domestic unrest were major factors that pushed Iran down in this sub-index.

Digital Readiness:

What happened to the biggest movers? Improvements in network readiness, technical skills, and the startup environment metrics facilitated rank rises for Kazakhstan and Cambodia. Ghana's economic crisis stifled ecommerce growth, pulling down what had been a very promising market. Vietnam's poor startup environment and lagging digital skills hurt Vietnam's ranking. A similar situation was seen in Egypt, with the addition of low growth in bank account ownership.

Supply Chain Reconfiguration

The global supply chain industry is undergoing a structural transformation which is already having a significant impact on regional and global flows of goods. Across a range of industry sectors – from consumer goods to advanced electronics – a variety of political, economic, societal, technological and environmental factors are compelling global manufacturers and retailers to re-examine their sourcing and investment decisions.

Imperatives for supply chain change

Political: security concerns over the use of Chinese-made components in Western infrastructure as well as fears that Western advanced technologies may be used for Chinese military purposes. US tariffs on Chinese imports and potential EU tariffs on Chinese electric vehicles.

Economic: increasing prioritization of supply chain risk taking into account shipping delays, oil price volatility, transport disruption etc. Also rising labour costs in China.

Societal: importance of modern slavery legislation, worker conditions and impact of regulations on import of goods produced by Uighurs in Xinjiang province in China.

Technological: increased levels of robotics and automation which reduce Western manufacturers' reliance on large, low cost labour forces.

Environmental: increased costs levied on both shipping and air cargo sectors (e.g. the EU's Emissions Trading Scheme, for example) as well as carbon levies on goods produced below Western environmental standards (e.g. Carbon Border Adjustment Mechanism).

What is clear is that supply chain decisions are no longer being made predominantly on the basis of access to large scale, low cost labour or a simple trade off against the costs of transport products from remote parts of the world to Western consumer markets. The factors outlined above have created a complex market environment in which politics and ideology often outweighs economic logic.

As one logistics executive put it succinctly:

"It is no longer an era where cost is the major driving factor," Masahiro Moro, a senior managing executive officer at Mazda, told the Financial Times. "Right now, robustness of our supply chain also needs to be considered to ensure the stable procurement of parts."

All industry sectors are being affected in one way or another with manufacturers opting for 'China plus' alternatives, near-sourcing or re-shoring as highlighted below:

- Tool manufacturer Black & Decker closed down its factory in Shenzhen and opened a new facility in Fort Worth, Texas
- HP and Dell have shifted up to 30% of their Notebook production out of China due to tariffs and advanced tech export controls
- Apparel manufacturer Nike has relocated production out of China to South East Asia not least due to concerns and regulations related to the treatment of the Uighurs in Xinjiang Province
- Adidas has also moved some of its production to Vietnam and rival Puma to Bangladesh, Cambodia, Indonesia and Vietnam
- Toy company Hasbro has shifted some of its production from China to Vietnam and India
- Korean household 'white goods' manufacturer Samsung has moved its production from China to South Korea and USA
- Competitor LG meanwhile is now producing refrigerators in its home market of South Korea rather than China to avoid US tariffs
- Go Pro, the camera manufacturer, has near-sourced production from China to Mexico.
- Levi Strauss, which relied on China for the majority of its production, now sources less than 5% of its products from the country, relying instead on other markets in South East Asia such as Bangladesh, Vietnam and Sri Lanka.

Apple's role in supply chain restructuring

The restructuring of global supply chains away from China is continuing. Apple announced in May 2023 that it was shifting some of its component sourcing to the US, stating that it had agreed a new multiyear, multibillion-dollar agreement with Broadcom to develop 5G radio frequency components and cutting-edge wireless connectivity components. Broadcom, a leading supplier of components including semiconductors, is based in the US and has production facilities there as well as a strong presence in South East Asia.

Apple's decision to move its component sourcing away from China is significant. Apple's supply chain had been becoming more dependent on China over the past decade, as Chinese electronics manufacturers began producing more complex products. For Apple to move such sourcing to the US is a fundamental change of its supply chain policy.

This comes at a time when Apple has switched some of its smartphone assembly operations to China's strategic rival in the region, India. Apple's contract manufacturer, Foxconn, already has a plant based in Chennai but typically making older iPhone models with a six month time lag over global product releases. It is believed that this gap will now narrow to six weeks with a short term goal of simultaneous release of the iPhone 15 in both markets.

As well as relocating assembly operations, Apple will use more Indian suppliers (presently many intermediate components are sourced from China) helping to develop a production eco-system and reduce input costs. This will, in turn, encourage other high tech manufacturers to the country as levels of know-how, a skilled work force, technology and transport infrastructure improve. Many competitors, such as Samsung, may also follow, keen not to lose competitive advantage in a fast growing market.

Although many of the sourcing decisions are being driven by US legislation, it would be wrong to think that European manufacturers were not making similar decisions. As Bettina Schoen-Behanzin, a vice president of the European Chamber, said in a statement:

"Increasing numbers of European businesses are putting China investments on hold and re-evaluating their positions in the market as they wait to see how long this uncertainty will continue, and many are looking towards other destinations for future projects."

Covid has curtailed investment in Emerging Markets (EMs)

Whilst the relationship between China and the West is dictating trade policy agenda, research has shown that the effects of Covid are still being experienced in regards in Emerging Markets. An OECD report found that the median number of investment projects has reduced by 30%, the value of capital expenditure fallen by 29% and the number of associated jobs has dropped by 34% during the COVID-19 period compared to the period prior to the pandemic[1].

The authors put this down to measures which resulted from new ownership and entry rules and the less advantageous treatment of foreign-owned firms. They concluded that the presence of a high-level of COVID-19 containment policy restrictions, especially those resulting in supply-chain disruptions, had, '…an immediate negative effect on the probability of announcing or opening a new cross-border project, in particular in sectors most affected by such restrictions.'

At the same time of this, debt is rising. The Institute of International Finance estimates that EM debt rose to $100 trillion, a third higher than pre-Covid levels. In previous years this would have sparked fears of a debt crisis, especially given high interest rates and the appreciation of the dollar. However, none of the largest EMs – including Mexico, Brazil and South Africa – appear to be under imminent threat of debt distress. Analysts put this down to better Central Bank management and the build up of foreign currency reserves. Turkey is also growing despite a completely different approach to fiscal policy. President Erdogan has opposed attempts to raise interest rates, despite rampant inflation in the country, although these are now rising. However, other EMs which haven't pursued prudent fiscal policies have not fared so well, most notably Argentina (see below). The change in government in late 2023 is testament to a stagnating economy and 100% inflation.

Fiscal and economic stability is essential to encourage foreign investment. At the same time, governments would do well to recognise that any remaining policy restrictions put in place to constrain Covid must be liberalised if they are to tempt back many of the investment projects which were put on hold during the pandemic.

[1] Supply-Chain Disruptions and New Investment Policies in the Post-Covid-19 World, OECD 2023

Tensions between the West and China grow

China							
New Rank	Change	Score	Last Year's Score	Domestic Opportunities	International Opportunities	Business Fundamentals	Digital Readiness
1	0	8.61	8.31	8.54	9.08	6.17	8.07

China's economic power and its increasing political and military sway has provoked a response around the world. President Biden has banned the sale of advanced technologies to China and pressured its allies to do the same. Certain Chinese high tech companies have been excluded from selling their products in Western markets due to fears that they could be a security risk for telecommunications systems. The way it treats its citizens has also become an issue, and products which are manufactured in the Xinjiang province have also been banned from the US due to concerns over forced labour practices related to the Uyghur community.

It is clear that dependency on China is of major concern to the West. Over-reliance on the country for many products (highlighted during the Covid crisis) prompted talk of 'de-risking' or 'de-globalization'. However, there is certainly no unanimity in the West's policy response.

International Monetary Fund (IMF) chief Kristalina Georgieva has warned that what she calls 'geo-economic fragmentation', combined with financial instability, could impact heavily on the growth of the world's economy in the coming years. Speaking at the China Development Forum in Beijing in March, she said that the world risked splitting into rival economic blocs which would leave people poorer and less secure.

Her warning develops a theme set out by the IMF in January 2023. In a paper entitled 'Geoeconomic Fragmentation and the Future of Multilateralism', the authors describe a number of scenarios in which the cost to global output from trade fragmentation could range from 0.2% up to 7% of GDP. The organisation believes that with the addition of 'technological decoupling', the loss in output could reach 8 to 12% in some countries.

In May 2023, the leaders of the G7 countries met in Hiroshima, Japan to discuss the challenges facing the world's economy and not least how to counter China's increasingly assertive role on the world stage in terms of trade as well as politically and militarily.

The language used at the conference was couched much more diplomatically. It talked in general terms about creating, 'resilient global supply chains that are transparent, diversified, secure, sustainable, trustworthy, and reliable, and that are fair for all and responsive to the needs of global citizens.' The term 'de-risking' supply chains, was used rather than 'de-coupling', the latter implying an attempt to strangle China's economic development.

However, this language did not properly reflect a more uncompromising mood at the meeting. Although trying to avoid mentioning China specifically, the communique asserted, 'We reaffirm our shared concerns with non-market policies and practices, including their problematic evolution, that distort global competition, trade and investment.' It went on to say that export controls were a fundamental tool to prevent the diversion of technology to military applications. What's more the member countries would in the future take joint action against trade-related challenges, including economic coercion.

Despite its diplomatic language, the post-conference press communication prompted a furious response from China, calling it an 'anti-China workshop' and subsequently banning the sale of chips by US company Micron to Chinese companies. In an editorial quoted by Reuters, the state-backed Global Times said, 'The US is pushing hard to weave an anti-China net in the Western world.' Others would say that the G7 is finally waking up to the fact that the world trading regime has been successfully manipulated by China to project its economic and political power globally. However, it is still very unclear what the response of the G7 could be, especially when the economies of some members – such as Germany – are so deeply integrated with that of the Chinese.

Latin America: Region of Contrast

The Latin American region has been referred as a potential 'commodity superpower' due to the large resources of metals and minerals which are essential for the green revolution. It has a vast food production capacity and geopolitical tensions highlighted above are encouraging multinationals to invest.

This latter factor has been behind a surge in demand in Mexico from near-sourcing strategies, driving a growth in cross-border freight volumes and warehousing development. However, economic and political fragility, a characteristic of the region for many decades, remains endemic. Argentina is particularly struggling, although there are hopes that a radical new government will be able to bring about reforms and stability. Its weakness, however, has left it vulnerable to foreign influence, not least from China's offer of infrastructure investment.

CASE STUDY

Latin American supply chain fragmentation causes inventory headaches

Supply chain management in emerging market presents a number of challenges for global consumer manufacturers which they don't face in developed markets. The Latin American operations of one the world's largest beverage companies faced such a challenge in 2023 revealing a reduction in sales of 20% due to a post-World Cup reduction in consumption; lower economic activity and down-trading by consumers to lower premium brands.

Whilst all these factors are some of the normal risks of doing business, what particularly unsettled the company's investors was the lack of management's supply chain visibility in the region, leaving them seemingly unprepared for the downturn. This resulted in an initial drop in share price of more than 10%.

A disconnect with the end-buyers of its products was at the heart of its problems. The manufacturer generated most of its sales in the region through wholesalers and distributors. As the headwinds grew, channel partners consequently reduced their inventory and placed fewer orders.

Management discovered that whilst it had good visibility in inventory levels through its distributors, it had less visibility to inventory at wholesale and retailers that they sold to. Point of sale information in the region was much more limited meaning that consumer demand was decoupled at the distributor level within the supply chain. What appears to have happened is that wholesalers increased their inventory holdings during a period of low inflation/low interest rates and then de-stocked. The manufacturer's management was unable to tell the difference between underlying consumption and orders which had been placed to take advantage of the low interest rate environment caused by the 'Covid super cycle'. Management then only recently became aware that there was more inventory being held in 'opaque levels' below distributors than they had anticipated.

The episode demonstrates how difficult it can be to grow a business in emerging markets with a fragmented and complex downstream supply chain. The company's management would say that the model had worked well to date and it was only a unique set of circumstances, post-Covid, that had created this problem. However, it is a reminder that the reality of supply chain management in many parts of the world is far removed from a paradigm of perfect visibility. Although technological advances and new platforms may produce more accurate data at every supply chain level, more channel partner collaboration will also be needed to ensure greater levels of future resilience.

Booming Mexico

Mexico							
New Rank	Change	Score	Last Year's Score	Domestic Opportunities	International Opportunities	Business Fundamentals	Digital Readiness
9	0	5.60	5.55	5.37	6.25	5.41	5.16

Mexico is enjoying an economic boom as a result of many manufacturers and retailers relocating their production to Mexico from China to supply the US market. This near-shoring trend has led to demand for cross-border logistics and warehousing services. Many businesses were impacted by the West Coast port congestion which snarled supply chains or are worried about the risks involved in dependence on China. Others are benefitting from the huge subsidies on offer from Biden's Inflation Reduction Act which is encouraging investment in green technologies, particularly electric vehicles. Mexico's membership of the USMCA free trade bloc and its status as a trusted ally of the US (despite some obvious tensions) have combined with a low cost labour force and direct, land-based connections to put the country in an ideal position to take advantage of the boom.

However, whilst the potential may be there, it has still to be fully realised. Although many are positive about the prospects for near-shoring driven growth, there remains a huge level of frustration about the business environment. There are concerns that the government has little interest in engaging with the industry's challenges and that ports and road infrastructure is creaking under the pressure. In many cases this is not due to a lack of 'hardware' but to inefficient operational practices and trade processes leading to congestion. Customs clearance may take days or even weeks in Mexico compared with hours in China. There is also a lack of trucking capacity and drivers, a situation which may be made worse by a new US visa system which will encourage many drivers to move north of the border.

'Vanity projects' such as the Tehuantepec isthmus corridor railway – a proposed alternative to the Panama Canal – have also been cited as examples of populist policies which have little practical value to ease present capacity problems. Security, corruption and general mismanagement are also putting off investors although a more beneficial tax regime is in the offing. One poll found that 60% of respondents had experienced an increase in the number of security incidents over the past year.

The results of this year's Agility Emerging Markets Logistics Index show that there is great potential for domestic and international logistics investment but poor performance in terms of 'digital readiness' (for example the strength of ICT and energy networks) and business fundamentals.

The success of near-shoring relies on a combination of US economic growth, the adoption of supply chain risk mitigation strategies by global manufacturers and the right domestic conditions in Mexico. If any one of these imperatives is compromised, so too will be Mexico's growth prospects. An example, of this is Tesla's apparent cooling on its decision to locate a new factory in Mexico despite the regional government committing $130 million to infrastructure improvements. The consequences would reach far beyond Tesla's own investment. If the auto manufacturer reverses its decision, a possibility due to slowing demand for EVs, the region could lose about $1 billion in investment by Tesla's Chinese suppliers which are planning to locate close to the assembly plant.

There is no doubt that near-shoring is already bringing the Mexican economy a significant 'windfall'. If the right domestic policies are put in place and the US economy remains robust there is no reason why this trend will not power growth for many years to come, allowing the government to modernise infrastructure and raise living standards which will result in a 'virtuous economic cycle'. However, this is by no means guaranteed. Much work is required by government and industry to ensure that the country takes advantage of the transformation of global supply chain strategies.

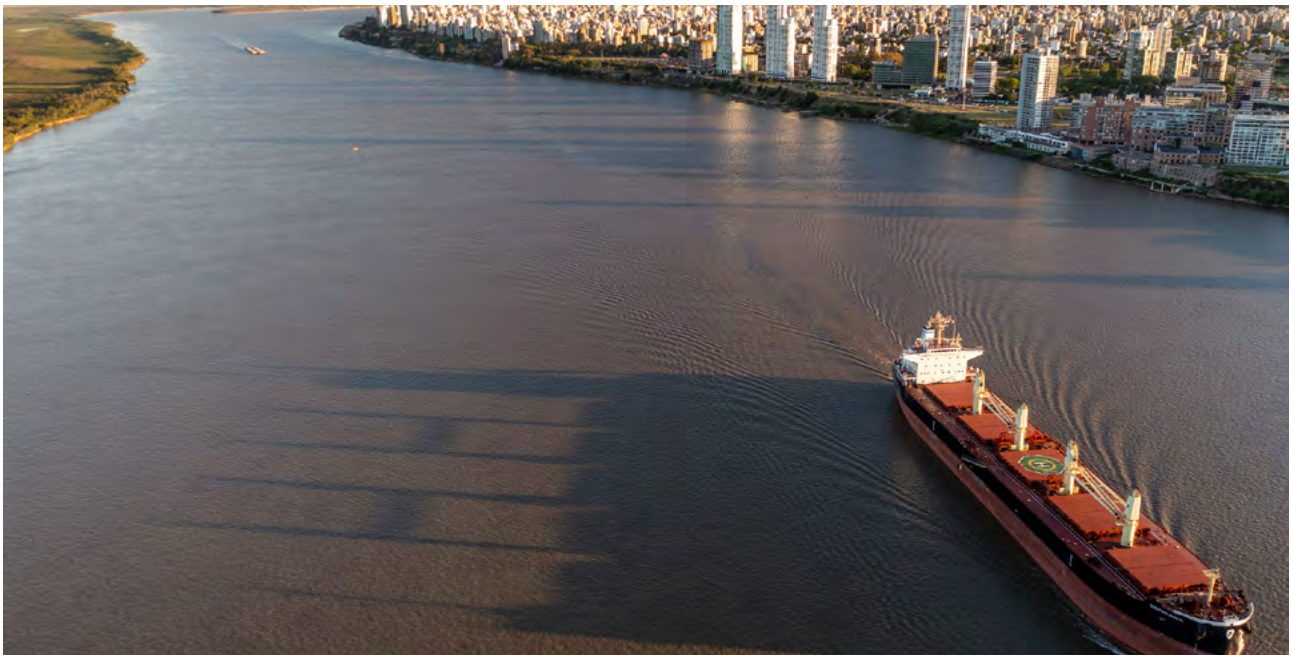
Unstable Argentina Looks for New Direction

Argentina							
New Rank	Change	Score	Last Year's Score	Domestic Opportunities	International Opportunities	Business Fundamentals	Digital Readiness
30	+1	4.68	4.66	4.83	4.72	4.17	4.78

Whilst Mexico is booming, in contrast Argentina's economy is in a very bad state. As the newly elected President Javier Milei commented in November 2023, "There's no money. There's no money. If we don't make a fiscal adjustment, we're headed for hyperinflation. We'll have hyperinflation and we are going to have 95% poverty and 70% or 80% homeless." The 'fiscal adjustment' he mentions will require major cuts to government spending due to his pledge not to increase taxes. With annual inflation of 140% it is easy to see why the Argentinian electorate turned to an out-sider to turn around the country's economy.

Milei has also vowed to review relations with China. The previous government signed a Belt & Road agreement with China in February 2022 which promised much needed infrastructure investment in transportation, infrastructure, energy, power and communications as well as the relocation of Chinese manufacturers to the market. The countries also committed to collaboration on green energy projects including hydroelectric, solar and lithium. In return Argentinian exporters would benefit, mainly from access to the Chinese market for agricultural products such as soybean and beef. Closer financial ties were also on the cards as a result of Argentina's membership of the Asian Development Bank and potential loans from the BRICS New Development Bank, another Chinese initiative. Loans from Western institutions and banks have largely dried up due to a reluctancy to lend to an economy in such dire straits.

China's influence in Argentina has been growing for some time, an issue of concern for the US government – and Milei. In 2010 just 5% of Argentina's imports originated in China; this proportion has now expanded to 20%. Whatever, Milei's rhetoric, it will be very difficult economically and politically to push back on China's increasing role in the country, despite his wish to pivot more towards the US. With $23 billion of deals already signed with China since the Belt & Road agreement came into force, it seems that Argentina's future – and supply chains – will be dependent on transpacific relations as part of China's economic sphere of influence rather than looking north to the USA.



[2] https://www.reuters.com/world/americas/theres-no-money-argentinas-milei-doubles-down-economic-shock-therapy-2023-11-22/

Where Now for the Middle East?

The shocking events in Israel have catapulted instability in the region back to the top of the geo-political agenda, pushing Russia's invasion off the frontpages of global media, at least for the time being. At present it seems that hostilities will be confined to Gaza and fears that Israel's neighbours may get involved have proved to be unfounded. This will mean that the impact on the wider global economy should be contained despite threats to the price of oil (which continued to fall due to weakness in underlying demand) and the proximity of the Suez Canal to the conflict.

Whilst fighting is continuing it is too soon to rule out the possibility of other countries becoming involved. However, it doesn't seem as if there is an appetite in the region to de-rail the economic progress which has been made in recent years. At the forefront of these countries is Saudi Arabia which, as the case study shows, is going through a remarkable period of transformation.

Saudi Arabia's Ambitions

Saudi Arabia							
New Rank	Change	Score	Last Year's Score	Domestic Opportunities	International Opportunities	Business Fundamentals	Digital Readiness
6	0	6.05	6.07	5.41	6.11	7.28	6.02

At the heart of Saudi Arabia's plans to open and diversify the domestic economy and integrate it more closely with the global market is its transformative strategy, 'Vision 2030', first announced in 2016 by Crown Prince Mohammad bin Salman. About 80 major projects are expected to be developed in Saudi Arabia by the year 2030, many of which focus on logistics development as crucial to achieving the country's development objectives. Most of these projects are financed by the Public Investment Fund of Saudi Arabia.

Ambitions include:

- Increase non-oil GDP from 16% to 50%
- Improve the country's ranking in the World Bank's Logistics Performance Index by moving from 49 – 25 and ensure that Saudi is a regional leader
- Increase the private sector's contribution from 40% to 65% of GDP
- Increase Foreign Direct Investment from 3.8% to 5.7%
- Increase SME contribution to GDP to 35% from 20%
- Lower unemployment rate to 7% from 11.6%

The transformation process so far has helped to create opportunities for domestic and foreign investors and, assuming progress is maintained, the Kingdom's potential as a logistics hub for regional operations will continue to develop. Alongside previously announced plans to increase the capacity and efficiency of Saudi Arabia's sea ports, through which more than 90% of the country's trade is transported, Vision 2030 is also spurring the development of free trade zones. The zones at Riyadh's King Khalid International Airport and King Abdullah Economic City (KAEC) in particular have the potential to allow Saudi Arabia to compete with Jebel Ali (UAE). This would not only be as an import gateway for goods destined for the Kingdom but also as a key transhipment and light manufacturing hub for the Gulf Cooperation Council (GCC) and the wider region. Development of the free trade zones has been allied with reform in the Kingdom's customs regime, with clearing time at key gateways for certain goods reduced to hours or days rather than weeks in some cases.

The challenges in realising these aspirations should not be under-estimated. Despite changes to FDI regulation – including the decision to allow foreign investors to own 100% of business in formerly blacklisted sectors such as warehousing – Saudi Arabia remains a restrictive, if now less prohibitive, market for foreign investors to operate logistics assets and businesses domestically. One of the results of the lack of competition has been an underdeveloped logistics sector although the logistics market – domestic and international – is becoming more competitive and giving rise to new players and services.

While there remains financial support for Vision 2030 despite volatile oil revenues and the impact of Covid, certain projects are likely to be delayed, scaled back or even abandoned. Indeed, the plan to boost non-oil revenue to 1 trillion riyals in 2030, from 163 billion riyals in 2016, may now be out of reach. Many of the regulatory reforms and liberalization in the Vision 2030 plans, though, could be unaffected, potentially securing the Kingdom's ability to continue improving business environment.

The next few years may be decisive for the Kingdom's transition and its pursuit of the Vision 2030 strategy.

Job creation will be tested – unemployment and underemployment remain significant issues in a country where two thirds of the population are under 30 years old. The Kingdom's "Saudization" plans could see up to 1.2 million foreign workers leave, opening up employment opportunities, although only provided that businesses can weather the pandemic and its economic consequences and also pay the higher wages the local population would demand.

Agility's Take

How Saudi Arabia is Changing the Game for E-Commerce in the GCC

Agility

Saudi e-commerce topped $10 billion in revenue in 2023, making the country the world's 28th largest online market and bringing it on par with its regional neighbor, the United Arab Emirates.

Growth in online revenue in Saudi Arabia is forecast to expand at 13.5% annually through 2027, much faster than the global growth average of 11.2%. In key areas such as investment, logistics capacity, and shipping volumes, Saudi Arabia is set to establish itself as the region's new e-commerce leader.

Saudi Arabia's Vision 2030 strategy contains overarching economic objectives that are driving growth in its digital economy. It wants to be a global and regional transport and logistics hub, and it is determined to expand non-oil sectors such as local manufacturing and exports.

The country's Vision 2030 plan singles out e-commerce as a critical lever it needs to foster expansion of small and medium-size companies, which account for about 20% of GDP in the Kingdom but generate close to 70% in advanced economies.

To address the lack of a domestic logistics network, Saudi Arabia has simplified licensing for domestic delivery providers and created multiple tiers of licenses. At the same time, fresh investment has poured in to boost warehousing, fulfillment and trucking capacity.

Key ministries and agencies have gone paperless by automating processes for digital and logistics businesses. They also have simplified the rules, eased burdensome requirements, and cleared up gray areas.

To boost consumer confidence and fight fraud, the country has issued new rules requiring e-tailers to offer warranty information on invoices, and provide multiple payment options, tracking, order cancellation procedures, and return-and-refund instructions. It also has cracked down on vendors for failing to provide consumers with contact information, chat options, secure payment channels, complaint-resolution mechanisms and Arabic-language service.

Saudi Arabia's powerful sovereign wealth fund, the Public Investment Fund (PIF) has taken sizeable stakes in leading global retailers, e-commerce companies and payments providers, including Noon, Shopify, Pinterest, Walmart, Visa, and PayPal. And PIF has been the Kingdom's bridge to China, investing in Alibaba and Pinduoduo, paving the way for their expansion in the Saudi e-commerce market.

Just as it is OPEC's dominant member and "swing producer," Saudi Arabia is the heavyweight of the six-country GCC, where it accounts for 62% of the GCC's population; 84% of the landmass; and 50% of combined GDP.

Saudi Arabia's SME sector is another advantage – larger, more diverse and more vibrant than SME sectors in the UAE other GCC countries. The Kingdom's eagerness to put resources into the development of local merchants and Saudi brands that have export potential has been demonstrated by its support for the fashion-oriented Saudi 100 Brands campaign and other initiatives.

How Saudi Arabia is Changing the Game for E-Commerce in the GCC (continued)

Starting Jan. 1, it will be much more difficult to serve the Saudi market from Dubai or any other transshipment hub. Merchants, marketplaces and other players in the digital eco-system (including lawyers, consultants and banks) will need to be "Saudi-ized" with a physical and legal presence and employees in the Kingdom. Global consulting firm Kearney and Saudi consultancy Mukatafa predict that 74% of online shoppers in the Kingdom will shift from global to local platforms.

The statistics hint at the potential of Saudi e-commerce. Worldwide, online sales were forecast to be nearly 21% of total retail revenue in 2023, while in Saudi Arabia e-commerce accounts for only about 7% of all retail activity. That's a gap e-tailers are keen to close.

Energy – Off-Shoring from Europe

The European energy crisis following Russia's invasion of Ukraine has added an extra layer of complexity to the decisions which manufacturers have to make about their sourcing, production and supply chain management strategies. Whilst the cost of labour has hitherto been a significant – if not the significant factor in deciding whether or not to off-shore manufacturing, the high cost of gas and electricity is causing what might be referred to as a 'second wave' of production relocation from Europe. This is providing a boost to markets with access to sources of low cost energy, Saudi Arabia being one of the main beneficiaries.

As Moosa Al Moosa, President, Middle East and Turkey of chemical conglomerate, Dow, commented:

'Simultaneously, the elevated and volatile energy prices in Europe present an opportunity for the Middle East to capitalise on their lower energy costs.'

The changing global dynamics of the energy market will help the Saudi Arabian government's plans to diversify by providing a tailwind to foreign investment in higher value downstream activities related to chemicals, plastics and pharmaceuticals. Saudi has committed to spending $100 billion in so-called liquid-to-chemical projects.

CASE STUDY

Neom – the sustainable city of the future

The development of a new sustainable city, Neom, is a key part of the Vision 2030. It has been designed as a test bed for future urbanization which takes into account the needs of people and the environment, including net-zero goals. Whilst being built with residents and tourists in mind, there will also be a substantial industrial area. A $6.7 billion green hydrogen plant was announced in 2023 to be built by ACWA Power, Air Products and Chemicals Inc. It is planned to come into operation in 2026. In total the city is budgeted to cost $320 billion, half of which will come from private and public investors, the other half from the Saudi sovereign wealth fund.

Neom will also have its own port, called 'Oxagon'. $2 billion has been allocated to its development and it is planned to open in 2025. It has also announced its own airline, Neom Airlines, to provide global connectivity from Neom Bay Airport and later from Neom International Airport, presently under construction.

Additionally, a £1.2bn design and build contract has been awarded for 57km of a high-speed railway linking 'Oxagon' with one of the main residential zones of the city, The Line (so-called as the linear development reaches 170km from the Gulf of Aqaba to Neom International Airport).

Agility's Take

Sustainability in MEA

The Middle East and Africa Environmental Sustainability Scorecard, released by Agility in November on the eve of COP28, showed that South Africa, UAE, Egypt and Saudi Arabia were doing the most to combat climate change in MEA.

The scorecard also showed that countries in MEA are taking radically divergent approaches to the climate challenge. The report, done by the independent research firm Horizon Group, concluded that the 17 countries covered are "relative latecomers" to global sustainable development but are rapidly stepping up sustainability strategies and investments. In addition to looking at 48 performance indicators, Horizon surveyed 647 business executives in MEA. Key findings:

- **Business isn't paying attention to COP**. Eighty-two percent of African businesses and 49% of Middle East businesses were not aware of the UN-led COP process that nations are using to push and measure efforts to tackle climate change. Few companies use COP to set their sustainability targets.
- **Climate change is hurting businesses**. Ninety-seven percent of companies said their business have been affected by climate change, and 49% said climate change has caused "severe damage" or has a "significant and growing" impact on them.
- **Governments are leading; businesses are playing catch up**. When it comes to climate action, governments are outpacing the private sector in both the Middle East and Africa.
- **Business spending on sustainability is expected to increase**. Over the next 12 months, 73% of African businesses and 62% of Middle East businesses expect more than 5% of their capital expenditure business to go to achieving environmental targets.
- **No one size fits all**. Different countries have different sustainability priorities based on income, economic strengths, energy dependency, and other factors. High-income, energy-producing Gulf countries generally invest more in sustainable infrastructure and ecosystems. African economies perform best in energy conservation and consumption.
- **Green investment is expensive**. High- and middle-income countries are investing the most: Qatar, UAE, Morocco and Saudi Arabia.
- **Africa is focused on green transport**. Uganda, Nigeria, Rwanda, Kenya and South Africa are tops in energy conservation and non-fossil fuels for transport. Hydrocarbon-dependent Gulf countries are focused more on green buildings. For Gulf countries, the transition to cleaner energy is complicated by energy-intensive national priorities such as their desire to boost manufacturing and their need for desalinated water. In general though, across both the Middle East and Africa, more companies are investing in greening their fleets compared to greener premises.
- **Waste management, consumption are tied to wealth**. High-income countries are doing more to manage waste sustainably. Poorer ones do more to constrain consumption. Overall, Egypt, South Africa, Bahrain and UAE perform best in "circularity" – cutting waste, lowering consumption, and encouraging recycling and sustainable production.

Can India Rival China?

In 2023 India overtook China to become world's most populous country and has demonstrated resilience throughout a period of global economic turbulence. Its growth rate in 2023 was double that of the average for emerging markets as well as being second highest of the G20 nations. The growth was largely driven by domestic demand and public infrastructure investment. The World Bank foresees economic growth of around 6.5% for the coming few years, only moderated by global factors and geo-political events. India also benefits from a young demographic, in contrast to China's ageing population, which will provide an economic boost in the years ahead.

India							
New Rank	Change	Score	Last Year's Score	Domestic Opportunities	International Opportunities	Business Fundamentals	Digital Readiness
2	0	7.21	7.43	7.86	7.60	6.35	6.28

However, the positive outlook hides a number of serious structural challenges which the government will need to address. A weak education system, with the exception of the most well-off in society, threatens to curtail economic growth as well as create societal problems if unemployment rises. The Covid crisis has also impacted literacy and numeracy rates, poor even before the pandemic. As well as comparing badly to developed countries, India's results also lag some competitor countries in the region such as Vietnam.

Another problem, as detailed in the case study, is the government's attraction to protectionism as a way of supporting its nascent industry. After years of liberalisation which saw tariffs fall on average to 8%, they now stand at 18%, well above countries such as Thailand and Indonesia.

India imposes import restrictions on consumer electronics

In 2023, the Indian government banned the import of all laptops and personal computers into the country without special licence. After a storm of protest, the government allowed manufacturers a grace period of a year which would allow them to develop domestic production facilities although this would seem unlikely given the short time period.

The measure will affect global manufacturers such as Apple, Lenovo, HP, Acer and others as well as Indian consumers and businesses largely reliant on foreign made electronics. Significant price rises are expected as a result of a disruption to supply although it is hoped that 'trusted' brands will be granted permits.

The move by the government is the latest stage of its 'Make in India' programme which simultaneously supports local electronic manufacturing whilst imposing barriers on the import of foreign products, especially those which are produced in China. In May 2023, a subsidy package worth $2 billion was announced for smartphone manufacturers which proved successful in encouraging companies such as Apple to transfer some of their global production capacity to the country. The government hopes that an import ban on the IT hardware sector will have similar results.

The move comes at a time when Indian conglomerates, such as Reliance, are launching their own consumer electronics products, drawing accusations of preferential treatment. Although these companies are, in the short term, just as likely to source their products from abroad, including China, some believe that their government links will allow them to gain special licenses more easily.

The decision is another illustration of political intervention in the functioning of global supply chains driven in this instance by regional rivalry between India and China and an industrial policy which prioritises local manufacturing. In this regard, Prime Minister Modi is following China's own playbook of capturing upstream value by encouraging and compelling 'on-shoring' of production.

CONTINUED OVERLEAF

The decision will have implications for the logistics and supply chain industry. Local and national supply chains in India will increase in importance at the expense of international services. This will not happen overnight. India must build the infrastructure – energy, transport, ICT and financial – as well as develop relevant skills amongst its workforce before it is able to challenge China effectively. However, the direction of travel towards higher levels of global supply chain fragmentation is clear.

There is no doubt that India offers huge opportunities for foreign investors. Politically, it offers an alternative to dependency on China, which will encourage Western governments to redouble diplomatic out-reach. However, as the government under Modi has made clear, there is no certainty that India will fall into an alliance with the West. Economic growth is also not a certainty. Although investment in infrastructure is huge, education will need to become a key priority if India's young and growing workforce is to become one of its advantages rather than a major liability.

SMEs and Access to Digital Supply Chain Finance

A recent report on supply chain finance published by the World Economic Forum summarises the conundrum facing Small and Medium-sized Enterprises throughout much of the Emerging World. Although e-commerce platforms and the diversification of manufacturing supplier bases offer them more opportunities to connect with the global trading community, the costs and challenges of doing so are greater than ever.

Access to finance is a fundamental problem for many companies. The International Finance Corporation has estimated that 40% of SMEs in developing countries have an unmet financing need of $5.2 trillion every year. Around half of SMEs don't have access to any formal credit agreements – a state which severely limits the ability to export goods. On top of this, global interest rates have risen significantly in an attempt to contain inflation making the cost of borrowing for companies which may not have a strong credit rating much more expensive.

The solution is a combination of public and private initiatives. One specific example is the partnership between the IFC, Citi Bank and global flavours company McCormick & Co which works with many suppliers of herbs and spices throughout the emerging world, but particularly in Asia.

The initiative works by extending discounted rates on short-term working capital financing to McCormick's suppliers using Citi's global Supplier Finance platform if they fulfil a range of environmental and societal standards. Starting in Indonesia and Vietnam, the programme is being extended throughout the region.

> *'Making financing more readily available not only adds stability to the buyer-supplier ecosystem, but also helps enhance relationships between buyers and their key suppliers.'* Citi

The partnership is part of IFC's Global Trade Supplier Finance (GTSF) program, a $500 million multicurrency initiative established in 2010. GTSF provides short-term financing to small and midsized suppliers in emerging markets selling to large domestic buyers or exporting to international buyers, by discounting invoices once they are approved by the buyer. Loans can be linked to sustainability and diversity objectives, including encouraging women entrepreneurs.

The SCF model works by leveraging a buyers' credibility and credit rating across its supplier base – benefiting all parties involved, especially SME suppliers who would likely be funding the export of their products through their own capital. In order that finance reaches even the smallest suppliers, companies like McCormick implement 'deep-tier financing solutions' although this relies on visibility of lower tier suppliers. Although challenging, the extension of lower cost financing improves the resilience of supply chains, especially in times of increasing interest rates. There is a growing demand for pre-shipment finance, even at the purchase order stage, which allows better management of working capital.

Digital SCF is an important facilitator of this trend. It accelerates the on-boarding process, increasing global companies agility in local markets and also enables the tracking of inventory and logistics. Reducing the costs of administration and developing channels in previously untapped markets can also play a role in keep down supply costs, under pressure from inflation.

Supply Chain Finance in Asia at varying levels of development

- Sri Lanka's economy (ranked 18th in Digital Readiness sub-index) is export-oriented and at the same time characterised by small and medium-sized businesses. This makes the provision of supply chain finance challenging and local banks have only limited capacity to meet market demands. There is significant scope for the entry of digital platforms.
- Indonesia (ranked 8th in Digital Readiness sub-index) has a developed banking sector and many local and international banks offer a full range of supply chain financing products. Its digital economy is also thriving and this provides the opportunity for banks and multinationals to provide digital supply chain products, integrating even micro-enterprises into global trading networks as highlighted above.
- Vietnam's economy (ranked 21st in Digital Readiness sub-index) is highly dependent on trade whilst dominated by SMEs which account for 97% of all enterprises and 47% of GDP. According to the Asian Development Bank, there is a lack of expertise in the supply chain finance market, excessive regulation and a lack of advocacy of products. This will make the development of Digital Supply Chain Finance platforms challenging.

[4] https://www.adb.org/sites/default/files/linked-documents/46920-015-so.pdf

Agility's Take

The (Growing) Importance of Small Businesses

Do we need another reminder about the importance of smaller enterprises? They are the largest portion of our economy: 90% of all businesses worldwide, 60% to 70% of global GDP, and 70% of employment.

In the aftermath of the COVID pandemic, the *Global State of Small Business Report* by Facebook parent Meta found that many small enterprises are still struggling with inflation and simply trying to keep their doors open. Nineteen percent remained closed, and the highest closure rates – 33% -- were in North Africa and the Middle East, the report said. Other research showed that talent acquisition and retention, and access to financing were major problems.

The challenge for SMEs is to move from survival mode to "future ready," according to the World Economic Forum. It cites the need for smaller enterprises to adopt digital tools and technologies, then use their size to outmaneuver larger competitors by being quicker to design new products, shift suppliers, reuse resources, enter new markets, innovate and pilot fresh ideas, and adjust strategy.

Plainly, we do not collect enough data on small businesses or study them enough to know what can be done to help them survive and thrive. In early 2023, the U.S. Small Business Administration was startled by its own research, which found the number of exporting small businesses in the United States to be five times greater than previously thought.

International institutions – the World Trade Organization, OECD, World Economic Forum and others – continue expanding outreach to small business, developing guides and resources such as the WTO's TRADE4MSMEs initiative. But the on-ramp to cross-border trade is still fraught and difficult for smaller enterprises.

Unless we improve our ability to understand small businesses and make it easier for them to grow through trade, it's hard to see how we'll reignite global economic growth. Smaller enterprises are at the heart of the diversification efforts in oil-dependent Gulf economies. They must be the engines of job growth for Africa, where the population is forecast to double by 2050, making one in four people on our planet will be Africans.

Finally, they are critical to our ability to manage a successful clean energy transition. Small businesses generate roughly half of greenhouse gas emissions by all businesses. Most are still at the start of their journeys when it comes to measuring and reducing their carbon footprint. And yet they play an outsize role in development of the technologies we will need to achieve net zero.

Agility's Take

Closing the VC Gender Gap

By most measures, women are making steady gains in professional opportunity, pay and status, and decision-making power at work. Their progress, while slow and uneven, is reflected in economic empowerment indexes put out by the OECD, World Health Organization, UN agencies and others.

One area where women are advancing little is venture capital. Companies founded solely by women received only 2% of all VC investment in 2022. Only about 15% of all VC "check-writers" are women.

In the Middle East, venture capital investment is increasingly seen as a critical component of national economic competitiveness and a source of innovation. The region's VC funds and corporate VCs are competing with sovereign wealth funds that are among the world's largest, most active VC investors. Yet, startups founded by women in the Middle East and North Africa received only 1.2% of funding in 2021 and about 2% last year.

Venture capital is a male-dominated industry, and bias, whether conscious or subconscious, is clearly a factor. A Harvard study showed that 70% of venture investors preferred pitches presented by male entrepreneurs over those presented by women entrepreneurs, even though the pitches were identical.

Other analysis has shown that VC investment amounts in enterprises founded or co-founded by women average less than half the amount invested in companies founded by male entrepreneurs.

Sixty-two percent of women entrepreneurs in Inc.'s Women Entrepreneurship Report said they have experienced some form of gender bias during the funding process. Feelings of bias are especially acute among women entrepreneurs in MENA: In a survey of 125 female founders in the region, 58% said MENA investors were less likely to invest in women-led startups than global investors.

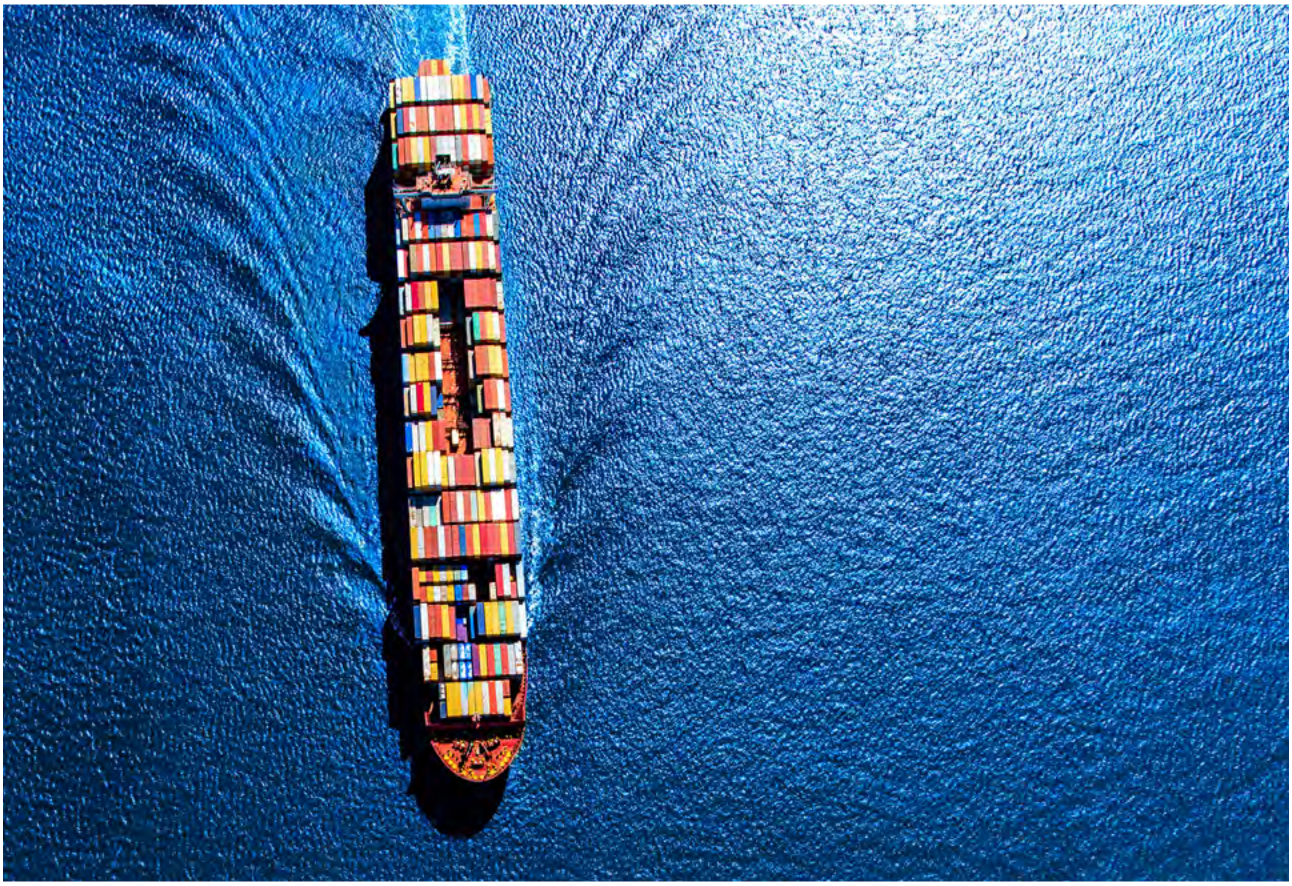
The scarcity of women check-writers – those who sit on fund boards, lead deals and make investment decisions – is also a very real issue. But the authors of a recent Harvard Business Review article on the VC gender gap caution women founders against focusing solely on pitching to female investors.

Another hard reality is the lack of a pipeline. Agility's corporate VC arm, Agility Ventures, receives about 1,000 pitch decks a year. Fewer than 10 typically come from women-founded or women-led businesses.

The lopsided numbers in MENA are especially perplexing because of the inroads women in the region have made in the educational fields that generate most of the innovation and ideas sought by venture investors. Women now account for 57% of STEM students at MENA universities, according to UNESCO.

By addressing the VC gender gap, we can unlock huge economic gains. A widely cited BCG report says global GDP would rise 3% to 6%, boosting the global economy by up to $5 trillion a year, if women entrepreneurs received the same amount of investment as male entrepreneurs.

Cross-Border E-Commerce Delivers Potential



e-commerce has enormous potential to allow small businesses in Emerging Markets access to global markets. Small craft manufacturers working in a remote part of a developing country now have the opportunity to sell their products to consumers in the US or Europe through one of the global platforms which have developed in the last two decades: eBay, Amazon and Alibaba, for instance.

This is hugely important to many local economies. Previously many manufacturers or retailers had to rely on a very small, local market. Now through the global reach of these platforms they can sell, in theory at least, to consumers right around the world.

Cross-border e-commerce is becoming a much more important part of the overall e-commerce market. It already represents about 22% of all e-commerce sales and is projected to grow strongly over the coming years. Many of the suppliers involved in cross-border commerce are located in low cost regions, especially China, and can undercut competitors in developed markets, relying on cheap postal rates.

The type of goods being bought cross-border is also changing. To begin with consumers' focus was on categories such as fashion and textile items. Now, however, cross-border volumes are also likely to be made up of products from the beauty and cosmetics, pet care, food, drinks, medicines, home decor and sporting goods sectors. The increased importance of goods such as perishables or pharmaceuticals requires an increasingly rapid and efficient cross-border delivery logistics system.

One of the biggest challenges which small business shippers face is dealing with border agencies, including Customs authorities. But the reverse is also true. The surge in the number of cross-border consignments has meant that Customs authorities have had to deal with an overwhelming volume of small packages which require different handling capabilities than they have been used to. In addition to this many of the shippers involved - especially if they are small - have little understanding of the rules related to shipping goods internationally. The same can also be said for dealing with the tax and duties payable on their consignments. Border agencies often don't have the level of staff necessary to deal with these volumes efficiently.

On the flipside, small businesses struggle to deal with complex documentation procedures and this often leads to shipment delays at borders. They also often have little idea of what the final landed cost price will be, an issue which is critical to the end recipient.

At the same time as this, many Post Offices which are responsible for moving most of these low value consignments around the world lack the systems to provide real time visibility. Due to the much higher pricing of international express operators, there are few options available to shippers, especially those selling low value goods. Another problem is that putting in place a returns process on an international basis is difficult and expensive and something which only much larger shippers can undertake. This puts smaller rivals at a considerable competitive disadvantage.

In 2017 the trade facilitation agreement, brokered by the World Trade Organisation, came into effect offering a powerful tool to facilitate fast and reliable international deliveries. Although not specifically aimed at cross-border e-commerce, the TFA provides major benefits for shippers of high volume, low value packages, not least because the opportunity to absorb costs for this type of trade are typically lower. Implementation of the TFA has resulted in reduced border complications and it is hoped that it will eventually lead to a 60 to 80% increase in cross-border small business sales in some economies.

One of the provisions of the agreement is that members should endeavour to establish a 'single window' system for Customs clearance. This is a single entry point for traders to submit import export or transit documents. In many parts of the world when moving goods across the border, traders have to deal with multiple agencies, lodging multiple documents. Not only does the physical process create administration costs, but it also increases the potential for errors and queries, as well as for corruption.

The agreement also suggests that members should adopt a risk assessment approach to border clearance. This approach typically requires much lower inspection rates and data requirements which results in faster clearances of high e-commerce volumes.

Collection of tax on behalf of governments and compliance with sometimes hard to understand tax regulations can be costly. Often identifying the amount of tax which needs to be collected or paid is difficult and transparency of the entire process can be a real issue. For many small businesses, the entire tax handling process can influence whether they pursue cross-border e-commerce or not. When dealing with multiple foreign markets it is often unclear what steps they need to take in order to comply with regulations.

Another major challenge to the growth of the cross-border e-commerce sector is the difficulty in handling payments. Many consumers in emerging countries still have a high preference for cash. In Sub-Saharan Africa, for example, only about a third of residents have a bank account and this means that there is a high prevalence of cash on delivery payments - some analysts put this as high as 50%.

This results in several major problems. Whilst a cross-border shipment is in transit, for example, the consumer may change their mind and then refuse the shipment when it is being delivered. Even if the purchase is completed the courier company then has the problem of dealing with the return of the money, say to a secure facility. Security is an obvious problem. However, new solutions are being put in place; digital payment systems based upon mobile phone technology are now becoming ubiquitous in many emerging markets.

Sustainability Policies Come Under Scrutiny

Although few companies are willing to talk about it, there is little doubt that ESG programmes are under increasing scrutiny. In the West, there is unease that businesses have indulged in so-called 'greenwashing' in an attempt to convince investors, lobbyists and governments that they are taking climate change policies seriously. In Emerging Markets, there is a different perspective. They fear that increased environmental oversight and regulations by governments in Europe and the US will drive businesses to reduce their investments in such markets as Africa, Latin America and Asia. If managers seek to mitigate environmental risk by demanding levels of compliance which suppliers in Emerging Markets cannot attain, there is a danger that emerging market economies will lose out on jobs and economic growth, paying the price for global warming for which they have little responsibility.

The same can be said at a governmental level. There is great concern that the European Union's Carbon Border Adjustment Mechanism (CBAM) and the Emissions Trading Scheme (ETS) will harm trade with many countries by levying a border tax and making international transport more expensive. Whilst the EU calls this 'precautionism' (protecting societies and the environment) to many emerging markets it looks like a measure to protect Europe's businesses, under pressure not least from high energy costs.

Discouraging investment for ESG projects in the Emerging world is obviously counterproductive. According to the United Nations Conference on Trade and Development (UNCTAD) there is an annual shortfall of $4.3 trillion in investment needed to meet the UN's sustainable development goals. If investors pull out of these markets, there is also the possibility that those which are less concerned about sustainability will move in to fill the void. It seems that in this respect 'the perfect is the enemy of the good'. As an example, in 2021 Norway's government blocked any further investment in emerging markets by its sovereign wealth fund, partly as a result of concerns over ESG risks. There is a view amongst such institutions that damage to their reputations could result from potential bad publicity.

Part of the problem lies in Western expectations stacked up against emerging market realities. Whilst those agencies involved in oversight of investors may want high quality data on the emerging market companies benefiting from funding, this may be very difficult to obtain especially relating to diversity, labour and environmental practices. Even if companies are complying with Western standards, providing and formatting responses in line with investors' needs may also be highly challenging. Often this means, rather than adopting a policy of education and engagement, investors pull out of the market completely.

Obviously this approach leaves ESG investment vulnerable to criticism on economic, societal and environmental grounds – the complete opposite to what most would think of as its purpose. To avoid such accusations, banks, pension funds or businesses must take a more hands on approach to finding suitable targets for investment, rather than make decisions based on a 'box ticking' exercise. Working with local partners and by sending 'boots on the ground', investors can make more nuanced decisions, taking into account all potential ESG benefits as well as engaging with local companies.

Agility's Take

The Bumpy Climate Transition

The recent COP28 climate conference in Abu Dhabi brought the distance between our aspirations and actions into sharp focus. There are huge gaps to close in innovation, adoption, scalability, financing and regulation if we are to fend off the most catastrophic effects of climate change.

Even before the COP28 meeting, there were signs that some of the momentum needed to reach net zero might be waning. Doubts about electric vehicle demand, massive new fossil fuel investments, a depressed market for clean energy stocks, and a popular backlash against some policies aimed at lowering emissions.

The pace of climate progress by businesses clearly needs to accelerate. Accenture's analysis of the top 2,000 global companies shows that only 37% are committed to achieving net zero by 2050 – and just 18% are on track reach that goal.

Still, the drumbeat of bad news can't drown out the swell of historic change. The IEA says that fossil fuel demand will peak by 2030. Renewables will overtake coal as the leading source of electricity by next year. Solar and wind power, both now cheaper than ever, generate more than 10% of electricity and account for 75% of new power-generating capacity. In road transport, electric vehicles have grown to 15% of new vehicle sales, and the range of the average EV has tripled over the past 10 years.

A number of potential gamechangers are on the cusp of commercialization: renewable-energy technologies, electric mobility alternatives, heat pumps for zero-carbon home heating, carbon capture and storage, green hydrogen fuels, and industrial electrification. In Europe alone, those technologies could address up to 45% of the greenhouse gas abatement required for net zero, McKinsey says.

The shift to electric vehicles has highlighted the difficulty in securing adequate supplies of lithium and rare earth minerals used in batteries. But it also has triggered a search for substitutes such as wood chips – a source of synthetic graphite for EVs.

Similarly, hydrogen-powered heavy haul trucks are emerging as an alternative to battery-cell rigs. New alternatives in textiles and construction are being scaled. Innovations in recycling are making steel, plastics and cement cleaner, more versatile and more durable.

Adoption of green energy for road transport and ocean shipping is farther along than in commercial aviation, but in November, Virgin Atlantic completed the first transatlantic commercial flight fully powered by sustainable aviation fuels – primarily waste oils and animal fats.

Global investors have doubled their investment in transition technologies from $660 billion in 2015 to more than $1 billion today. Advance market commitments – binding contracts by governments, development banks and others to guarantee a viable market for a product – are bridging the gap needed to complete successful development of green products and services.

Climate policies and legislation are getting bolder. A review of 215 policies across two dozen major economies since 2015 found 17 examples of government backtracking and 41 of accelerated action with most others unchanged. The review predicted a public clamor for speedier climate action as extreme weather exacts a heavier toll and green tech shows increasing promise.

The Agility Emerging Markets Logistics Index Survey

Introduction

Between October and December 2023, Transport Intelligence surveyed 830 logistics industry professionals to gather their opinions on the prospects and challenges facing emerging markets in the year ahead.

In the year ahead, survey respondents show a willingness to continue, expand and diversify investment and operations in emerging logistics markets, provided conditions are right and governments offer safety and security.

Survey results show that the relocation of international supply chains is a growing phenomenon and global supply chains continue to restructure in order to better align with current geopolitical realities and reduce risks. Supply uncertainties, geopolitical and economic pressures, amongst many other risks, are causing businesses to rethink their supply chain models. Lowest-cost supply chains are being re-configured to not only consider the cost competitiveness of locations but to meet the challenge of improving resilience, performance and compliance to ESG standards whilst reducing risks.

In this regard, survey results show that a large proportion of businesses don't want to quit the Chinese market, but a similarly large proportion of businesses are seeking alternatives to China. Future plans of businesses paint a picture of reconfigured supply chains that are increasingly bypassing China. From 2023 onward, India will be a more attractive production and sourcing destination than China, according to survey findings.

The responses also highlight the intensity of the uncertainty gripping the global economy, with expectations of a recession amidst sharp growth slowdowns across the largest economies.

Global economic prospects

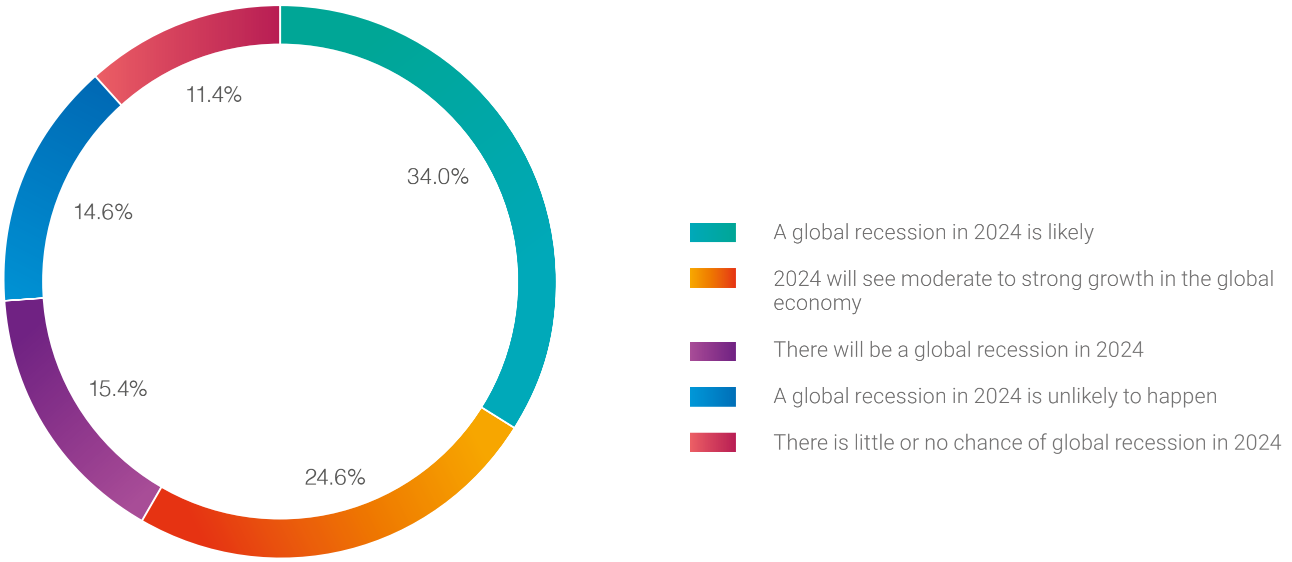
To measure logistics executives' sentiment on the state of the global economy, respondents were asked whether they anticipate a global recession in 2024.

Combining all responses that predict a recession shows that almost half of survey respondents expect a global recession in the year ahead. Conversely, around a quarter of respondents believe that the global economy will escape recession in 2024 and see moderate to strong growth. This highlights the intensity of the uncertainty gripping the global economy.

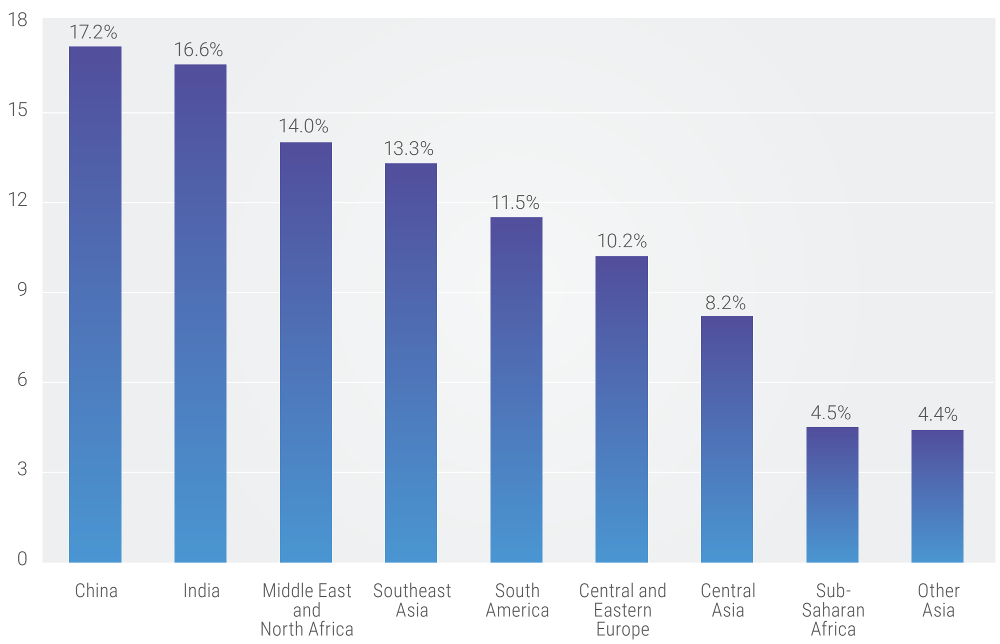
The forecast of a recession from 49.4% of respondents comes amidst sharp growth slowdowns across the largest economies. In October 2023, the IMF marked GDP growth down to 2.9% for 2024, which is well below the historical (2000–19) average of 3.8%. The global economy still falls short of its pre-pandemic trend. A confluence of factors is causing the downturn, including the consequences of the Covid pandemic, the war in Ukraine, monetary policy tightening, high inflation, and extreme weather events. The weak global economic growth is causing a downturn in global trade, exemplified by falling Chinese exports and US imports.

It remains to be seen what impact a global recession will have on emerging markets. If a US recession is on the way, it might be a positive for emerging markets as the case for greater diversification in global portfolios becomes stronger and investor ramp up investments in emerging markets. However, most emerging markets are export oriented economies and this makes a global recovery vital for demand to return and to support exports from emerging markets.

Which of the following statements most closely matches your opinion on global economic prospects for 2024?



Which emerging regions do you think will see the STRONGEST economic growth in the year ahead?



In a continuing trend from previous years, sentiment towards China's and India's economic outlook remains optimistic. Looking at the year ahead, China is expected to see the strongest economic growth of all the emerging regions examined, followed by India. This year MENA overtook Southeast Asia as the region with the third strongest economic growth in the year ahead.

The expectations of survey respondents match those of the IMF which has forecasted a 4.2% expansion for **China** in 2024, compared to a 2.9% global growth forecast. The optimism for China's economic growth comes despite multiple headwinds facing its economy. China's recovery from the pandemic has slowed recently due to soft demand for its manufactured goods, as global growth has also slowed, as well as due to its property downturn.

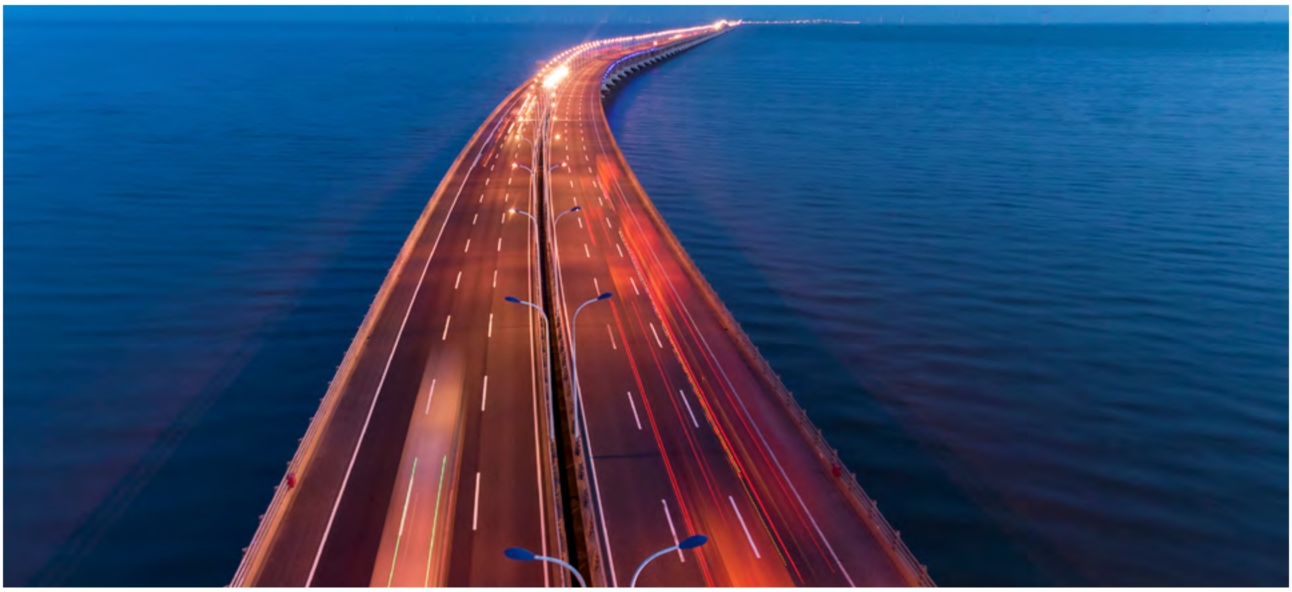
China remains at the top of the list, however, compared to last year, meaningfully fewer respondents selected it as the region with the strongest economic growth in the year ahead. China is closely followed by India as the region with the second strongest economic growth, making the gap between these two regions much smaller compared to previous years.

The **Indian** prime minister Modi has pledged to turn India into a developed country within the next 25 years. The country seeks to position itself as a manufacturing power to rival China, where an ageing labour force and rising wages are reducing its competitive advantage. The 'Make in India' initiative was rolled out in 2014 to encourage global manufacturers to move their factories to India. Corporate manufacturing giants are already looking for alternative production and sourcing destinations in India to accelerate supply chain diversification. For instance, Apple's main supplier, Foxconn, is planning to build two factories in South India. Apple has already increased its iPhone manufacturing coming out of India to 7% in 2023, and is looking to produce 25% of its iPhones in the country by 2025. Another example is Tesla which has reportedly expressed interest in building a factory in India that would produce low-cost electric vehicles (EVs) for the local market and for export. India should benefit from these tailwinds, aided by a strong logistics upgrade which will be key to transforming India into a manufacturing-dominant economy.

MENA's leap compared to last year's survey results is significant. Survey respondents' optimism for MENA is likely underpinned by the opportunities presented in the region. MENA is at a junction of development in many areas. It has a rapidly growing population of young consumers, increased digital adoption, rising disposable income, giga investment projects and significant public expenditure. The combination of these factors is fuelling optimism for the growth potential of MENA among survey respondents.

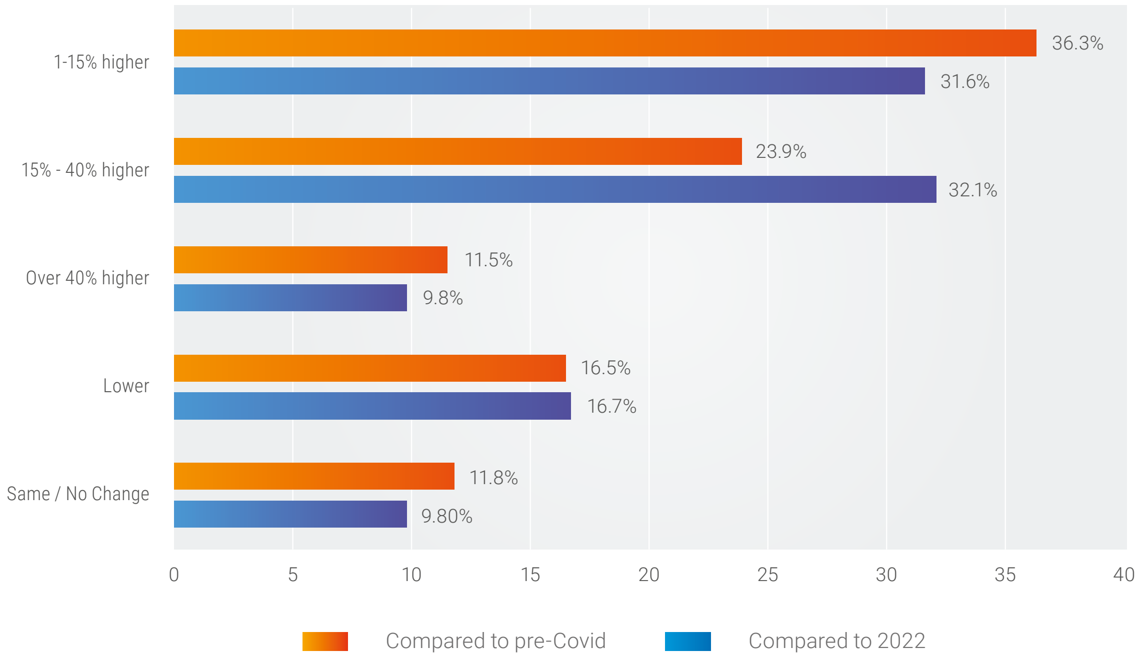
Further driving Asia's growth trajectory are the **ASEAN-5** (Indonesia, Malaysia, the Philippines, Singapore, and Thailand). Amongst these Southeast Asian nations, economic growth has been rapid in recent years thanks to its integration to the world economy but also within the region, particularly through trade. The region continues to harness the benefits of regional integration. The Regional Comprehensive Economic Partnership (RCEP) became the largest free trade agreement in the world when it was signed in 2020. One of the main goals of the RCEP is to create an integrated market. As part of this goal, tariffs on more than 65% of trade in goods are expected to reach zero and this figure is expected to rise to over 90% of goods traded over the next 20 years. However, 'big bang effects' of integrating trade within the region and removing the restrictive trade practices are expected to take time to materialise.

Expectations of strong economic growth in **Latin America** are weaker amongst survey respondents. Analysts agree – prospects for strong growth across Latin America remain subdued. According to the IMF, while emerging economies are projected to have 4.4% average growth, the region's GDP is expected to expand annually at about 2.5%, similar to its pre-pandemic historical average. Downside risks include inflationary pressures as well as climate-related shocks.



Logistics costs

How do your company's logistics costs compare to 2022 and pre-Covid levels for this time of the year?



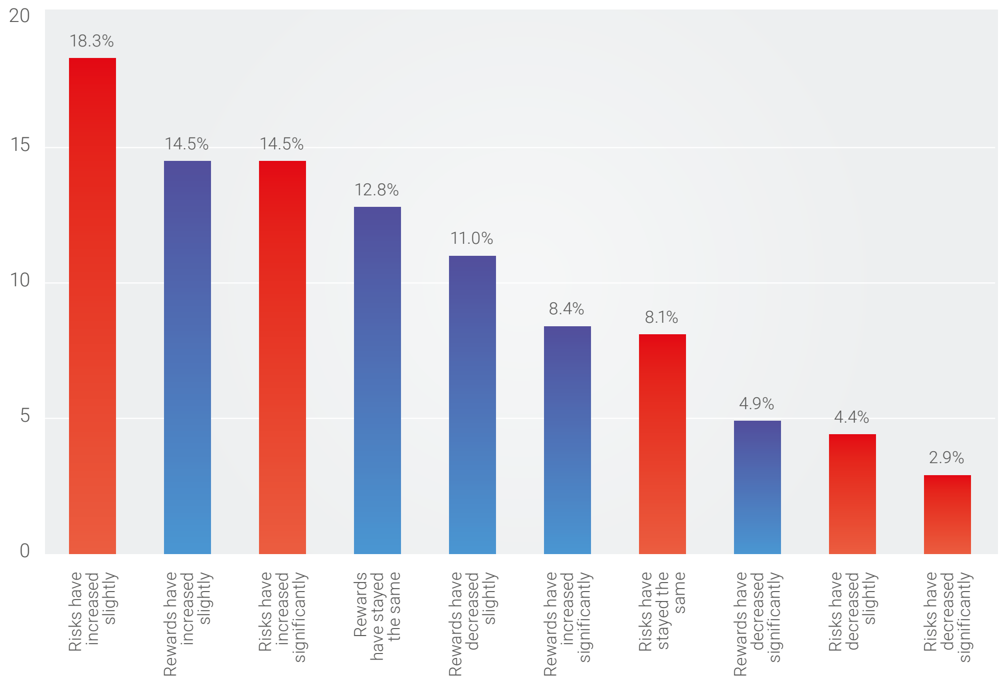
71.7% of survey respondents have stated that their logistics cost are higher compared to 2022, whereas 73.5% stated cost are higher compared to pre-Covid. The rate of increase varies across respondents, with over a third of supply chain executives reporting that their logistics costs are 1-15% higher compared to 2022. What's striking is that costs are still well above pre-Covid levels, with 32.1% of supply chain executives reporting increases between 15%-40%.

Survey results paint a picture of a market still characterised by extremely elevated logistics costs. There are several reasons contributing to this. Carriers are keeping freight rates up and above 2019 levels across major trade lanes by pulling capacity management levers, including blank sailings, slow steaming, scrapping and parking ships. In addition, surging costs are feeding through to freight rates. For instance, higher fuel costs, which remain elevated and volatile due to the Russian invasion of Ukraine, continue to drive freight rates up. Due to labour shortages and inflation, the cost of labour has also risen sharply and remains a significant factor in driving up operational costs.

Overall, businesses worldwide continue to face a number of headwinds, including elevated freight costs, supply chain disruptions, and a rise in fuel costs. For shippers and LSPs, these circumstances present significant challenges forcing them to look for ways to reduce the impact on their bottom line.

Risks in emerging markets

Thinking of your company's investments in emerging markets, how has the risk/reward ratio changed over the past 12 months?

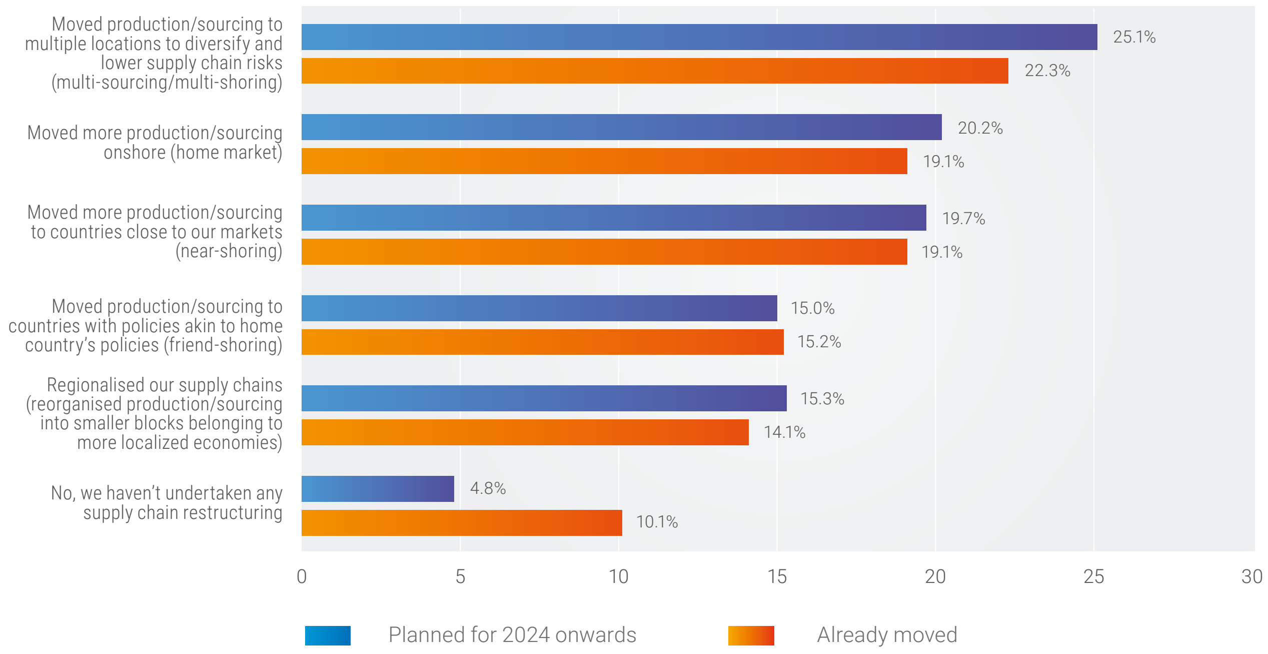


Almost a third of respondents think that the risks associated with investing in emerging markets have increased over the past 12 months, but a significantly lower proportion (23%) stated that the rewards have increased. These results suggest that businesses are faced with a less favourable risk/rewards ratio.

The slowdown in China's property sector and other downside risks to its GDP growth add to risks facing emerging markets considering the impact this has on global trade, commodity prices and financial market conditions. The IMF recently warned that emerging markets must grapple with post-pandemic risks from tougher global financial conditions, fragmentation of global trade into rival blocks and the impact of climate change. Increased borrowing costs are one of the major risks in emerging markets as increases in U.S. interest rates often generate adverse spillovers to emerging markets because government bonds are increasingly being issued at much higher interest rates. As such, the sharp rise in U.S. interest rates over the past year poses a significant threat to emerging markets. Another significant risk for emerging markets is lackluster growth in China. The strength and resilience of the Chinese economy matters a lot to other emerging markets due to their deep economic ties.

Supply chain reconfiguration

Have you undertaken any of the following supply chain restructuring activities over the past 5 years and if yes, are you planning to pursue your restructuring strategy over the next 5 years?



A certain degree of relocation of international supply chains is a perceptible and growing phenomenon and global supply chains continue to restructure in order to better align with the current geopolitical reality and reduce risks.

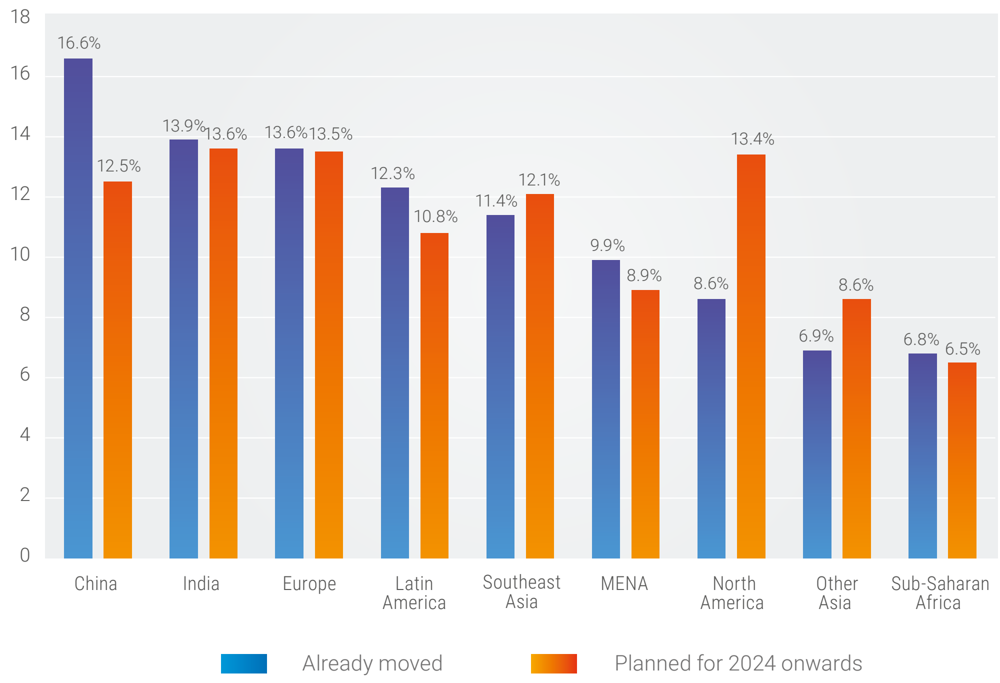
95.2% of respondents have undertaken supply chain restructuring activities over the past 5 years. Over the next 5 years, businesses will continue to rethink their global footprint, with 89.9% of supply chain executives planning to pursue their restructuring strategies.

The most common restructuring strategy over the past 5 years has been multi-sourcing, with over one quarter of respondents stating they have moved production/sourcing to multiple locations to diversify and lower their supply chain risks. This will continue to be the most common strategy over the next 5 years.

The results show that businesses are heeding calls to "de-risk". There is plenty of evidence that reshoring is already taking place. According to SP Global, mainland China's suppliers' share of US imports for goods such as home appliances, personal computers, printers and power tools has dropped significantly since 2013.

Moving more production onshore (home market) as well as near shoring, i.e. moving production/sourcing to countries closer to markets are also very common strategies. One notable example is Mexico which has emerged as one of the winners from the US-China standoff and whose exports have increased significantly due to nearshoring efforts by the US. Mexico's foreign direct investment rose 48% in the first quarter of 2023 from a year earlier, according to preliminary data Mexico's Economy Ministry. As the US seeks to reduce reliance on China, investment in Mexico from companies like Tesla is booming. And in July 2023, Mexico overtook China as the US's biggest trade partner.

Do you plan to move production/sourcing activities TO any of the following regions?

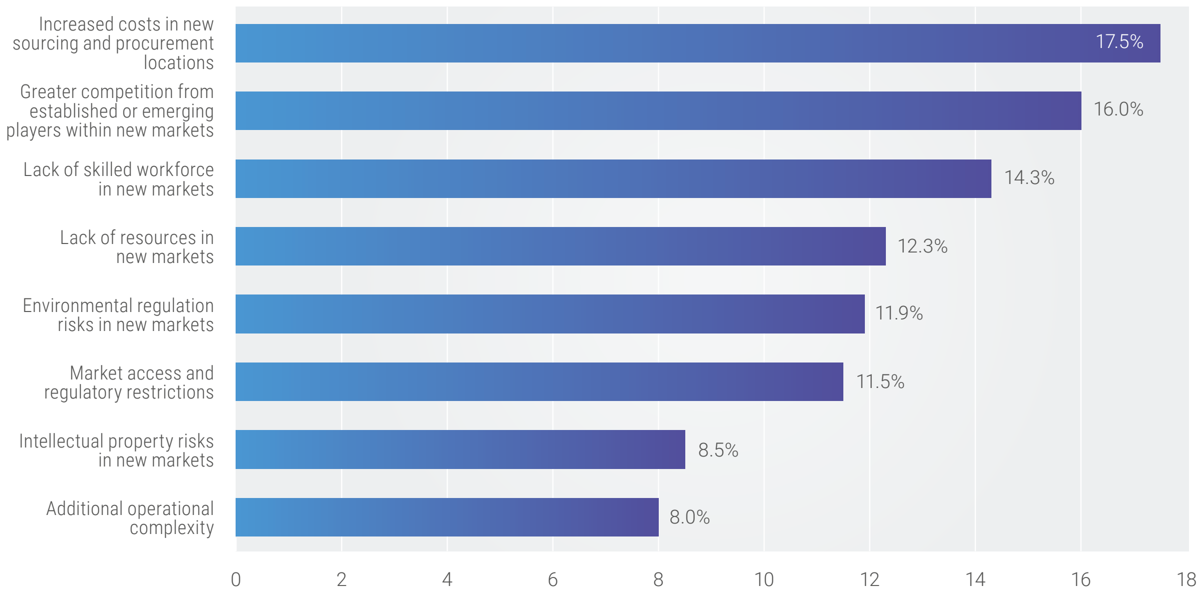


Evolving supply chains have made the movement of supply chains away from China a topic of growing importance. Survey findings show that 16.6% of the respondents that have already moved production/sourcing activities have chosen China as their alternative destination.

However, while China appears to have been the most attractive destination to move production and sourcing activities thus far, future plans of businesses paint a picture of reconfigured supply chains that are increasingly bypassing China. From 2023 onward, India, Europe and North America will be more attractive production and sourcing destinations than China, according to survey findings.

Survey results show a positive validation of the underlying strength of the Indian economy and reinforce the notion of India as the 'world's next China'. The results suggest that supply chain executives are bullish about the Indian economy and its potential. A combination of favourable factors presents myriad opportunities for businesses to move their manufacturing operations to India. India is one of the world's fastest-growing economies – it is expected to have one of the strongest growth rates: 6.3% in 2024. With a geopolitical wedge opening up between China and the US, India also has the opportunity to grow in restructured global supply chains. The country could increase its trade footprint in the midst of the trade conflict, especially for categories on which US has imposed tariffs on China.

What do you consider to be the main risks involved in a diversification strategy?



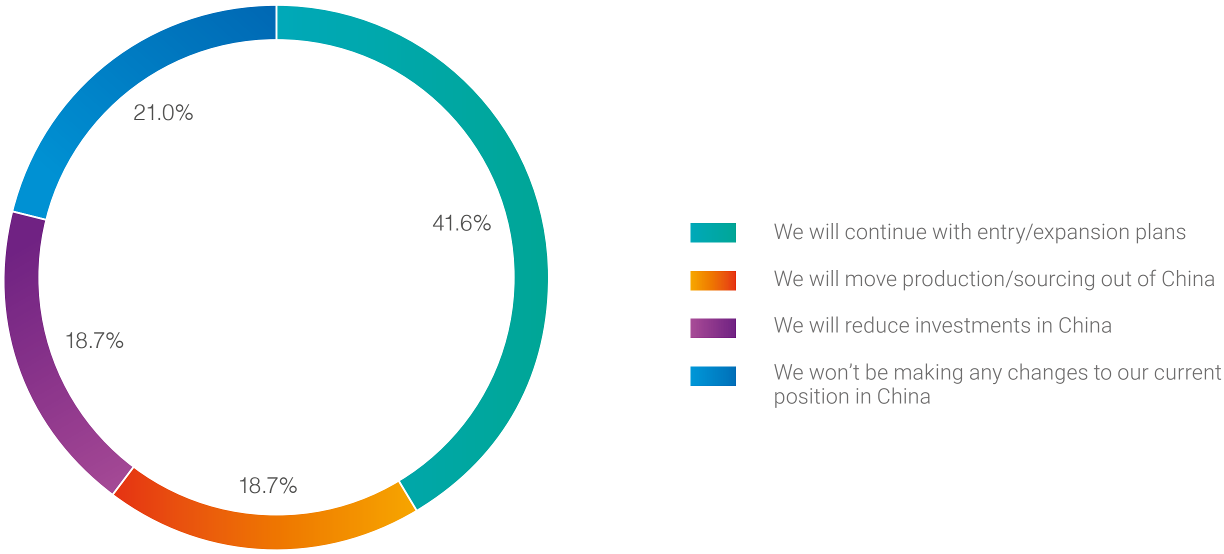
The reconfiguration of global supply chains brings with it a number of risks. **According to survey results, 'increased costs in new sourcing and procurement locations' represents the main risk involved in a diversification strategy, followed by 'greater competition from established or emerging players within new markets'**.

Emerging market economies are growing at a faster rate than the rest of the world. The accompanying wage pressure, due partially to increased demand for skilled labour, is pushing wages up. For instance, the wage gap between China and the US continues to close and will, in all likelihood, continue to close further. According to the IMF, wages in China, India, Indonesia, and Thailand will likely continue to outpace inflation, whereas wage growth across developed economies is plateauing or declining, which will only narrow the wage gap between emerging and developed economies. This rapid increase in labour costs is thereby erasing one of the most significant advantages to offshore production.

In sum, the findings strongly suggest that while the case for supply chain reconfiguration may be clear, the reality is more challenging and both the risks and rewards can be extraordinary.

Investments in China

Which statement best reflects your plans for the Chinese market over the next 5 years?

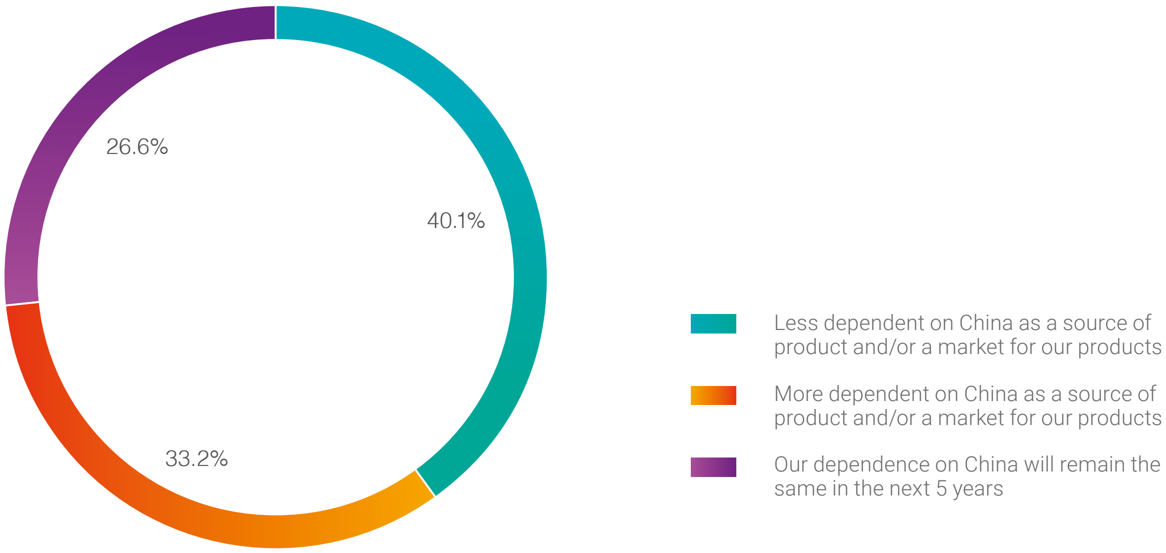


There are mixed results when it comes to companies' plans for the Chinese market in the next 5 years. 41.6% of survey participants stated they will continue with entry/expansion plans over the next 5 years. However, a total of 37.4% of respondents stated they will either move production/sourcing out of China or reduce investment in China, thereby demonstrating less dependency on China in the next 5 years.

The results show that a large proportion of businesses don't want to quit the Chinese market, but a similarly large proportion of businesses are seeking alternatives to China.

The results exemplify the opportunistic and pragmatic approaches that companies take to addressing complex supply chain challenges. **Considering the attractiveness of the Chinese consumer market as well as the competitive advantage of its sophisticated industrial clusters, corporate exodus from China remains unlikely**. Supply chains are so complex and fine-tuned that moving them would be prohibitively expensive and risky. Indeed, China's supply chain and manufacturing capacity has become so extensive, it is almost certain that it will remain entrenched in global supply chains.

How would you describe your company's growth strategy for the next 5 years in terms of your dependence on China?



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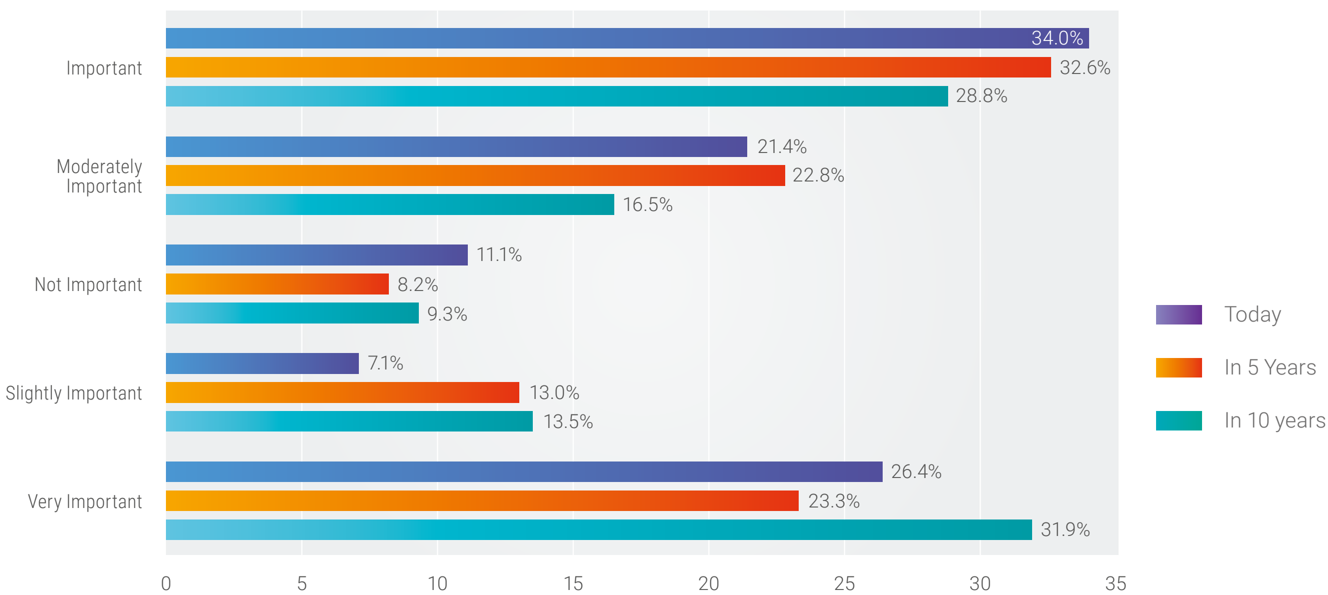
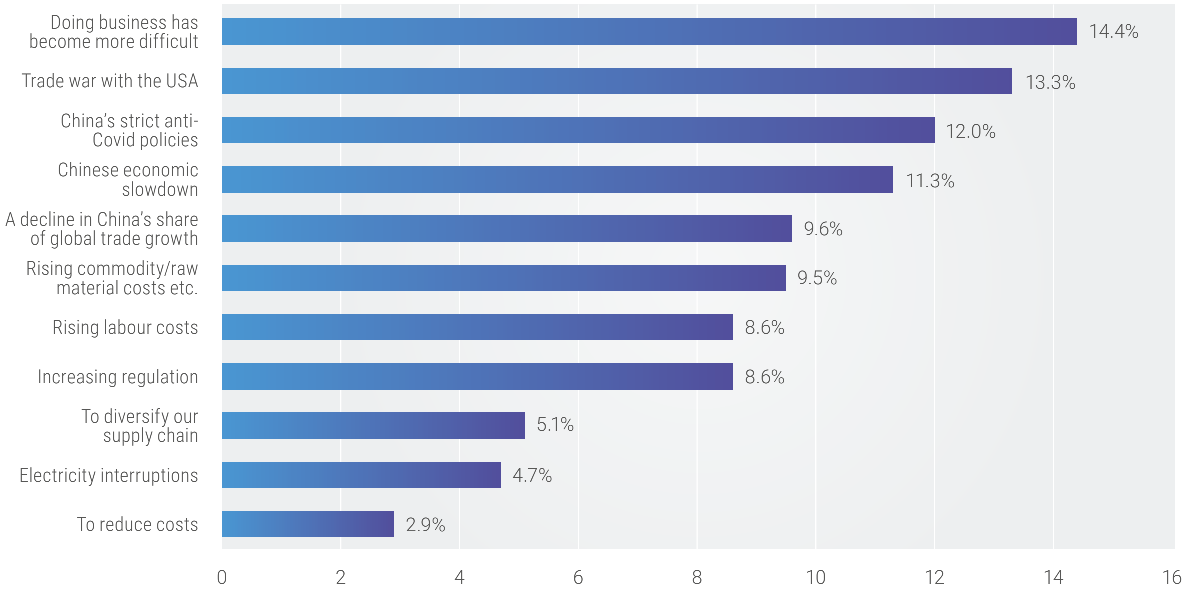
How important is China to your investment strategy?



The importance of China to the investment strategy of global businesses will continue to diminish in the coming years, according to the survey data.

Further underlining China's changed role in global supply chains, the proportion of businesses that consider China to be important/moderately important to their investment strategy will gradually decrease in the next 10 years.

Why have you decided to move production/sourcing out of China / reduce investments in China?



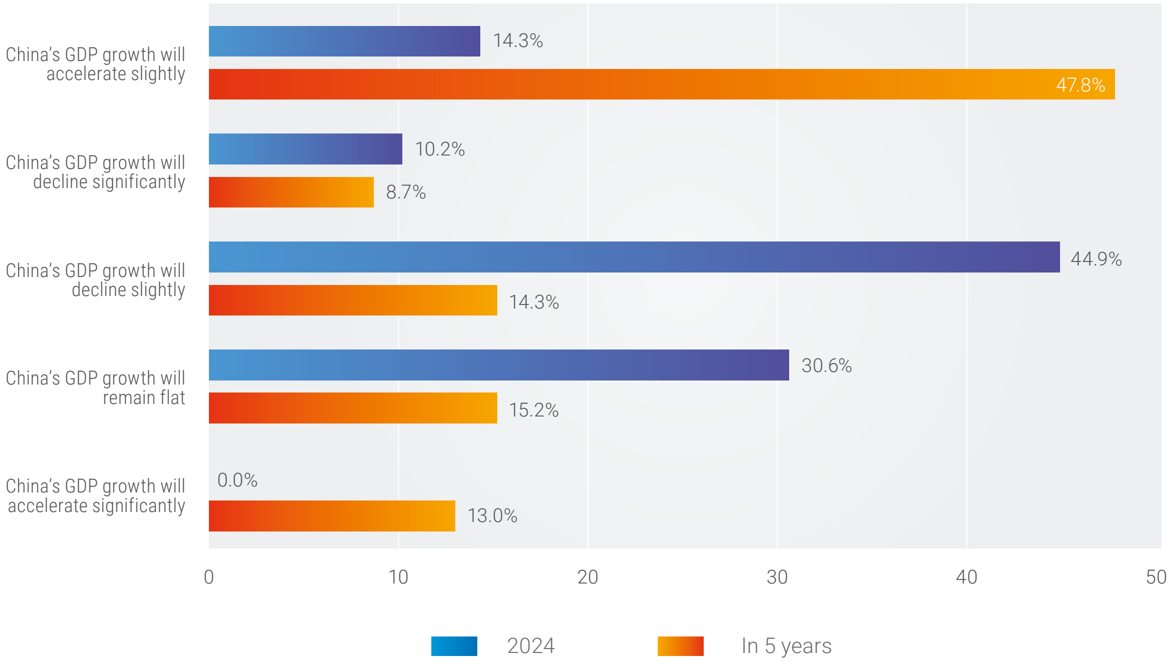
There are a number of reasons behind the decision of businesses to move production or sourcing out of China or to reduce investments. The most common reasons according to survey results are: 'difficulty in doing business', 'trade war with the USA' and 'China's strict anti-Covid policies.

14.4% of survey respondents stated that doing business in the country has become more difficult and this was the main reason why they reduced their investments in China. The results reflect both recent challenges in China – caused by rising geopolitical tensions and Covid policies, as well as the persisting long-standing market access barriers.

Trade tensions between China and the US create urgency for businesses to diversify their supply chain operations. Further driving these diversification decisions are China's prolonged post-Covid recovery coupled with forecasts that it will enter an era of much slower economic growth later in this decade.

The challenges that companies are confronted with when doing business in China are thus driving divestment and de-risking strategies. This trend is likely to become even more pronounced if China fails to take action to address them.

What are your thoughts on the outlook of China's economy?



Finally, the Chinese economic slowdown and grim outlook is another major reason why businesses decide to decouple from China. 44.9% of survey respondents believe that China's GDP will decline slightly in 2024, and another 10.2% believe it will decline significantly. Looking further ahead in 5 years, the outlook seems more optimistic, with almost half of survey respondents believing that China's GDP growth will accelerate slightly.

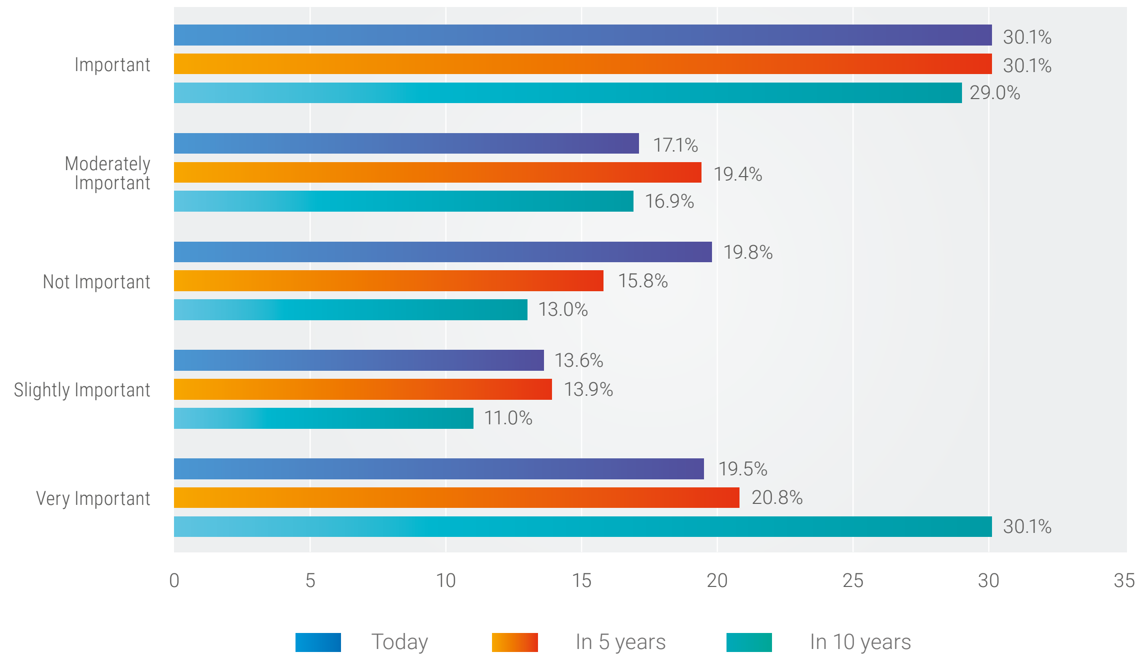
Overall, slowing economic growth and a weak recovery from the pandemic, along with other factors such as 'difficulty in doing business' and 'trade war with the USA' continue to dampen confidence among global businesses and are driving divestment decisions in China.

The trajectory of the Chinese economy will be an important growth factor for emerging markets. **China's investment-driven growth model has had a decisive impact on emerging economies in the past 10 years, but the current slowdown could cause spillovers to emerging markets that have closer trade ties with China**. Net commodity exporters such as Indonesia and Malaysia would suffer the largest impact due to reduced demand from China, according to IMF estimates. For instance, after recording seven successive years of increases in exports to China since 2017, Malaysia's exports to China declined by 8.8% in the first half of 2023. Similarly, Indonesia's trade and exports to China plunged in 2023 amid weaker demand from China.

While it is too soon to bet against the Chinese economy, the effects of a prolonged economic crisis in China on global markets would ripple around the world quickly. This is because China is deeply intertwined with the global economy and is the top trading partner to more than 120 countries.

Investments in India

How important is India to your investment strategy?

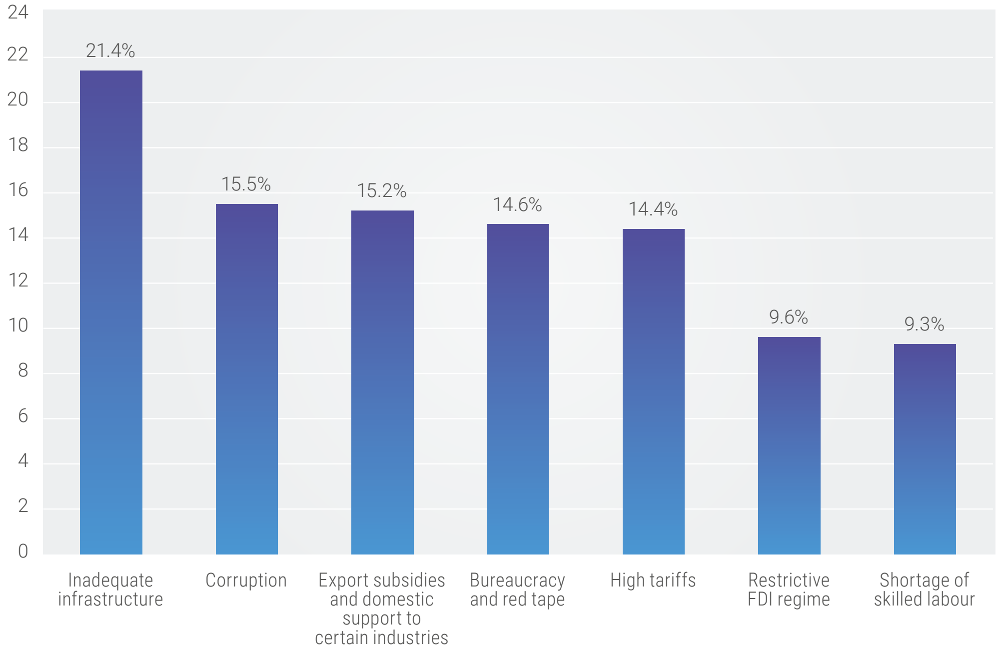


With China's economic engine sputtering at the moment, India might be ready to pick up the slack, according to survey results.

Survey results indicate that India's importance to the investment strategies of businesses will increase in the next 10 years. **The proportion of respondents that consider India to be very important to their investment strategy will increase from 19.5% in 2023 to 30.1% in 10 years**. Taking data in aggregate, the importance of India to the investment strategies of businesses will increase from 80.2% in 2023 to 87.0% in 10 years.

Setting these results against the results for China (which showed that the importance of China to the investment strategy of global businesses will continue to diminish in the coming years) suggests that India might overtake China in investment opportunities. The diversion in investment flows represents a huge opportunity for India, as businesses look for alternative production and sourcing destinations. As a result, India might become a key beneficiary of the ongoing supply chain diversification as businesses seek to reduce their dependence on China as the sole manufacturing/sourcing destination. Another factor that increases India's appeal are the US-China trade tensions, particularly for goods on which US has imposed tariffs on China.

What do you consider to be the biggest investment barrier in India?



India undoubtedly has a lot of direct investment opportunities and will continue to be an attractive destination for foreign investment. Still, the challenges and risks shouldn't be ignored. **Survey respondents are clear in their assertion that infrastructure quality is a central criterion in the assessment of investment decisions in India. 21.4% of respondents consider 'inadequate infrastructure' to be the biggest investment barrier in India, followed by 'corruption' (15.5%)**.

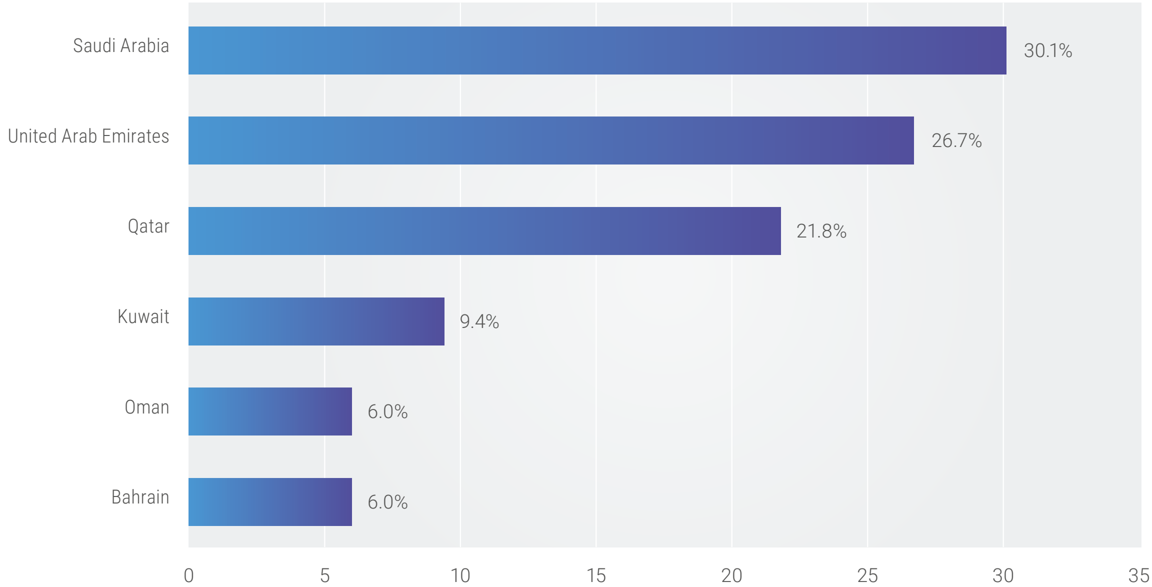
India suffers from poor infrastructure, which could pose a significant barrier, particularly for manufacturers. The manufacturing process requires uninterrupted electricity and massive quantities of water, and given the country's acute power crisis and droughts, managing large manufacturing plants might be challenging.

The country has been undertaking significant infrastructure upgrade projects. Its transport infrastructure has improved significantly over the past decade. The country will spend 1.7% of GDP on transport infrastructure in 2023, twice as much as America and most European countries. India is adding 10,000km of highway a year and from 2014 until 2023, the number of Indian airports has doubled. In addition, the country's electricity-generation capacity has grown by 90.9% since 2010 and it aims to triple renewable energy capacity by 2030.

The infrastructure upgrade is certainly a precondition for high growth and increased FDI flow in India, but other reforms are also required. Indeed, the wider suggestion from survey respondents is that no one barrier scores highly enough to suggest it is a decision-making point alone, while several barriers score highly enough to suggest that they will at least influence investment decisions.

Economic diversification in the Gulf countries

In your opinion, which of the following GCC countries have seen most progress in diversifying their economies over the past decade?



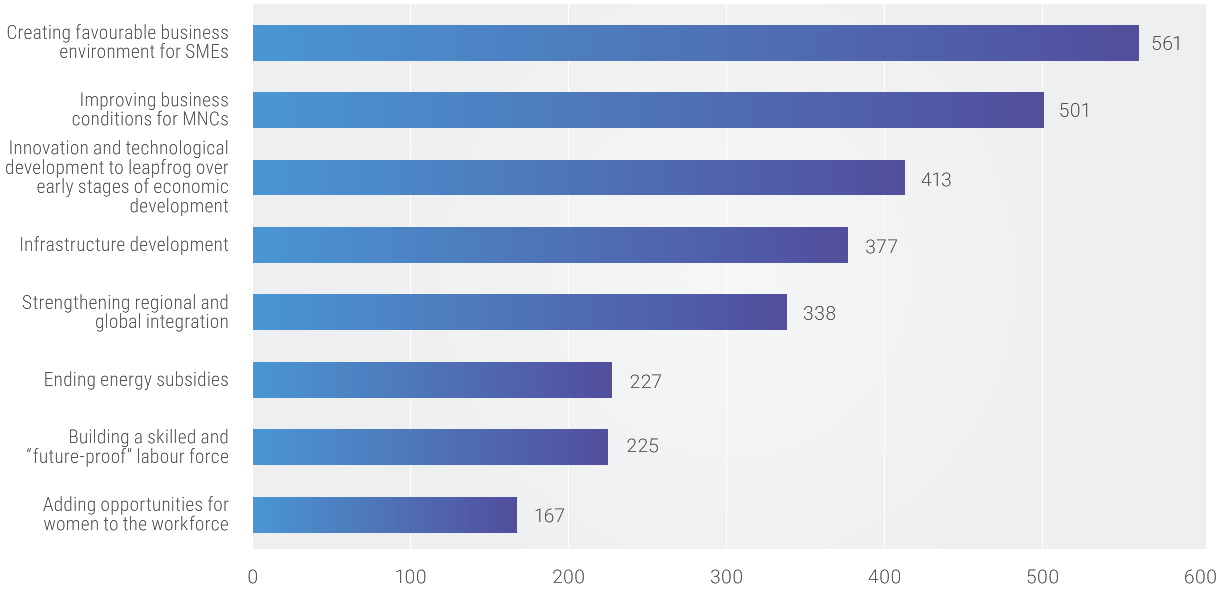
Saudi Arabia has seen the most progress in diversifying its economy over the past decade, followed by the UAE and Qatar, according to survey results.

According to the IMF, progress in Saudi Arabia has been most notably reflected in non-oil growth, which has accelerated since 2021, averaging 4.8% in 2022. In 2023, non-oil growth should remain close to 5%, supported by public investment drive and strong domestic demand, amongst other things. As a result of a new set of laws to promote entrepreneurship and reduce the costs of doing business, new investment deals and licenses grew by 95% and 267% in 2022, according to IMF data. In an effort to diversify national revenues and create engines of growth beyond oil and gas, Saudi Arabia is seeking to triple manufacturing GDP by 2030, increase the additional investments in the manufacturing sector to $346bn, and increase exports of advanced technology products by about six times.

Labour market reform and digitalisation are two key reforms in Saudi Arabia's economic diversification. The contribution of the digital sector to overall growth increased from 0.2% in 2016 to 15% in 2022. The share of Saudis in high-skilled jobs increased from 32% in 2016 to 42% in 2022 and female workforce participation has doubled over the past four years.

Overall, survey results suggest that supply chain executives are convinced that Saudi Arabia's national transformation programs have come a long way in the diversification journey which has been driven by improvements in the regulatory and business environment.

What are the three most important key drivers of economic diversification in the Gulf countries?



** 3 points allocated for 1=most important; 2 points allocated for 2=second most important, and 1 point allocated for 3=third most important*

'Creating a favourable business environment for SMEs' is the most important driver of economic diversification in the Gulf countries, according to survey respondents. 'Improving business conditions for MNCs' is the second most important diversification driver, followed by 'innovation and technological development to leapfrog over early stages of economic development'.

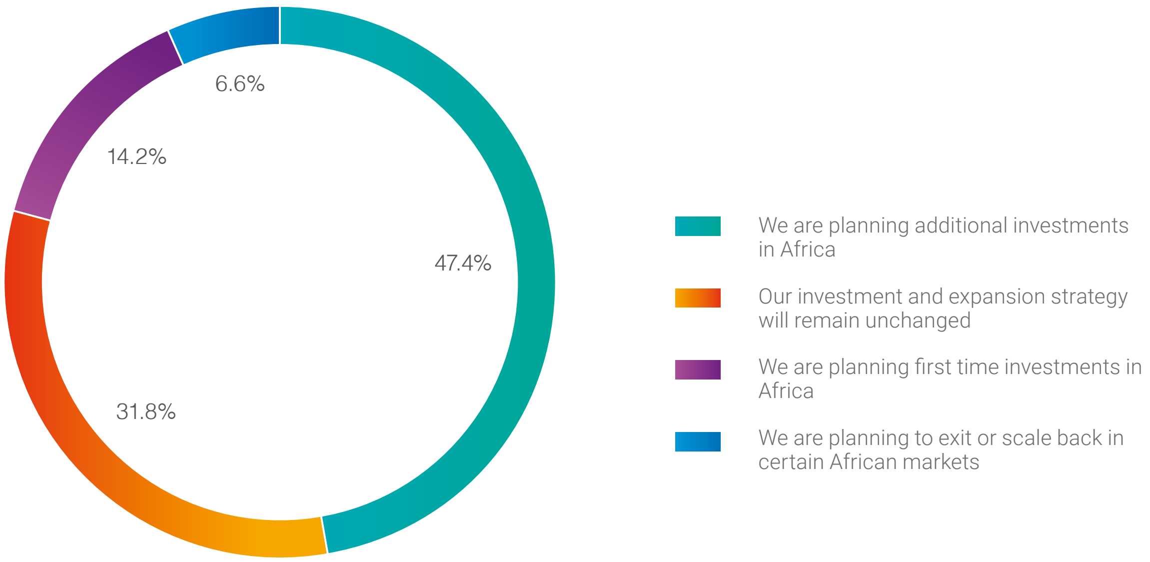
The strategic importance of SMEs is apparent in some GCC states. As per the goals outlined in Vision 2030, Saudi Arabia aims to increase the contribution of SMEs to 35% of GDP by the end of this decade. The country has made significant progress in this area so far. The number of registered SMEs in Saudi Arabia increased by around 30% year-on-year in Q3 2022.

In the UAE, SMEs account for 63.5% of non-oil GDP. The UAE aims to increase this number of SME's to 1 million by the end of 2030 as it seeks to boost the contribution of SMEs to its economy.

GCC nations have significantly streamlined their business processes, making them attractive destinations for MNCs. For instance, in line with the economic diversification goals outlined in Vision 2030, Saudi Arabia's Minister of Investment recently announced that MNCs that move their headquarters to the Kingdom will be taxed only for limited profits, and further suggested that these firms will be most likely granted tax relief.

Investments in Africa

How would you describe your company's investment and expansion strategy in Africa for 2024?



Despite some hesitation surrounding global growth prospects in the year ahead, survey respondents offer an optimistic outlook on investments and opportunities in Africa. At 47.4%, almost half of survey respondents stated that they are planning additional investments in Africa in 2024, and further 14.2% are planning first time investments in Africa.

The survey results demonstrate a renewed global interest in Africa. Indeed, there is plenty of evidence for increased engagement and investment commitments made by major global powers in Africa. For instance, the UK has announced plans to invest US$ 2bn in sustainable projects across Africa, while the US has pledged an initial US$ 200bn for its partnerships for Global Infrastructure Initiative. These initiatives are expected to create an influx of MNCs into major cities across Africa. South Korea has also pledged to extend $6bn in financing for African projects, in a move to reduce its heavy reliance on China for core minerals and contain China's influence in the global manufacturing supply chain.

Africa was a bright spot for container shipping in 2023, something that should continue in the coming years with the creation of the African Continental Free Trade Area (AfCFTA), the world's largest free trade area. Containerised imports into Africa in the first seven months of 2023 grew by 10.1% in comparison to the same period in 2019 and by 6.7% compared to the historically high 2022, according to Maersk Broker. The main driver of this increase has been trade from Asia into the African west coast, with trade volumes on this trade lane growing by 20.9% compared to last year.

Agility's Take

Africa's Demographic Dividend

Africa has immense growth opportunities, underwritten by its human and natural resources, that stand in contrast to many developed markets, which are stagnating. As a result, there is a new, tangible, global focus on Africa in both the commercial and political arenas.

Five of the key, interconnected, drivers for this momentum are :

Demographics and Urbanisation

Africa has a young and rapidly growing population forecast to reach 2.4 billion by 2050, creating the world's largest labor force.

Urbanization of this population is driving demand for infrastructure including roads, ports, airports, and digital infrastructure.

The UN forecasts that by 2030 Africa will have 13 cities with populations greater than 10 million people.

Natural Resources

Africa has natural resources required by the global economy, including vast mineral deposits that are critical for the world's energy transition.

The continent has 60% of the world's undeveloped, naturally irrigated agricultural land, a strategic resource for an increasing world population already struggling to feed itself.

Increased Global Interest

International investors are engaging to develop commercial opportunities, and this, in turn, drives renewed political agendas.

China has historically invested in African infrastructure projects. More recently the USA, Russia, Japan and India are all strengthening their interactions with the continent.

U.S. President Biden has implemented a significant upgrade for Africa in America's foreign policy priorities, establishing tangible projects such as the $14 billion Lobito Corridor, which connects Angola, DR Congo and Zambia.

At the G20 summit, India's Narendra Modi announced that the African Union should join the G20.

Regional Trade Integration

The African Continental Free Trade Area (AfCFTA) is a landmark agreement developing a single common market for Africa. Standard Bank predicts it will lead to an increase of 81% in intra-African trade and 30% in African exports to $1 trillion by 2035.

There is clear momentum from manufacturers to align with this opportunity and establish local manufacturing to avoid logistics constraints and become nimbler and closer to their markets.

Improved Business Environment

The speed and ease of doing business in Africa is improving via investment promotion agencies and one-stop shop solutions, improved governance, growing transparency , improved rule of law, and stronger protections for property rights.

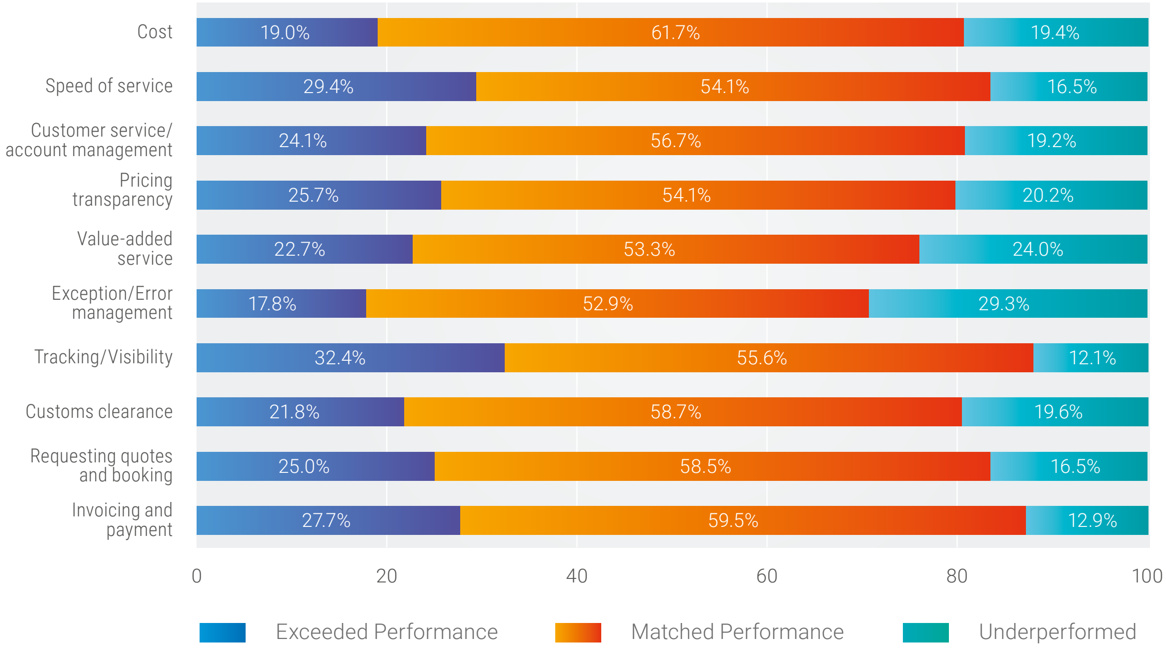
The young population's willingness to adopt new ideas creates a growing entrepreneurial spirit across Africa with a focus on technology and innovation creating a vibrant ecosystem.

Improved financial inclusion, mobile money and digital payment systems are enabling a previously unbanked population across the personal financial market and are revolutionizing SME transactions.

Development challenges remain. Too much of Africa continues to face political instability, security concerns, infrastructure gaps and high logistics costs that need to be addressed for sustained economic development. That's what will make Africa's fast-growing population a positive demographic dividend rather than a burden.

Digital forwarding

In your experience, how have digital forwarders (e.g. Flexport, Forto, sennder, Zencargo, Shipa Freight, Ovrsea etc.) performed in comparison to traditional forwarders you have used previously against the following criteria?



Survey findings show that digital forwarders have been successful at eroding the competitive advantages of forwarders across several areas. The majority of respondents believe that the performance of digital forwarders matches the performance of incumbent forwarders against ten different criteria, including cost, speed of service and customer service/account management. These results suggest that the differences between the digital and traditional freight forwarding business models are gradually fading, to the benefit of the entire industry.

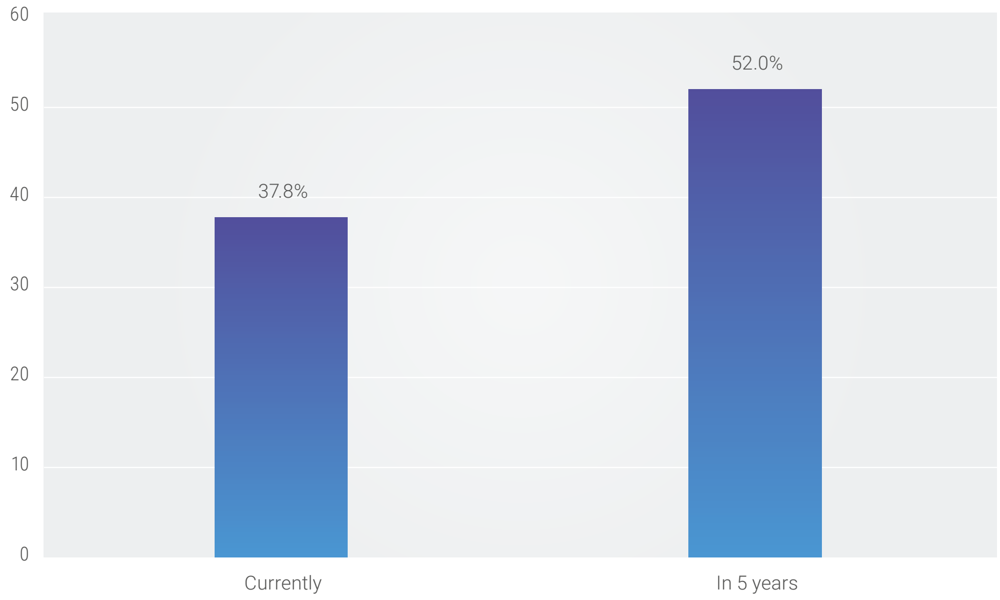
The areas in which digital forwarders perform particularly well include ‘Tracking and visibility’, ‘Speed of service’, ‘Invoicing and Payment’. These are all core areas of functionality that will create stickiness with those platforms.

However, in a continuing trend from last year, respondents suggest that digital forwarders are yet to consistently improve their offering when compared to traditional forwarders in some areas. These include ‘Exception/Error management’ and ‘Value-added services’.

The results suggest that digital forwarders are still unable to successfully address the real pain of logistics processes – handling exceptions. As implied in the survey results, technology has already replaced all of the manual functions that forwarders perform such as document creation, bookings, track and trace etc. However, forwarders often become an extension of the shippers they serve, they learn their preferences and offer specialized expertise and experience, and the ability to solve problems when they arise. Because of this, the digital forwarders who survive will only do so by competing with excellent technology solutions whilst building even stronger partnerships and relationships with their customers and building partner networks.

To survive and compete with the traditional forwarders, digital forwarders will also have to invest in geographical footprint and staff. It remains to be seen how they will achieve this considering that investment funding in this business model has become scarce. With the recent big layoffs that swept the industry, offering human expertise and good customer service might prove even more challenging. It might be an impossible feat for many of the digital forwarders.

What proportion of your company's volumes are shipped/booked through a digital forwarder?



The volume of goods that goes through digital forwarders remains a good indicator of the market penetration of these platforms. Survey findings show that the adoption rate is very sound and presently 37.8% of volumes are shipped via these platforms.

Looking ahead to 2028, the volumes shipped and booked through digital forwarders will further increase from the current average of 37.8% to 52.0%.

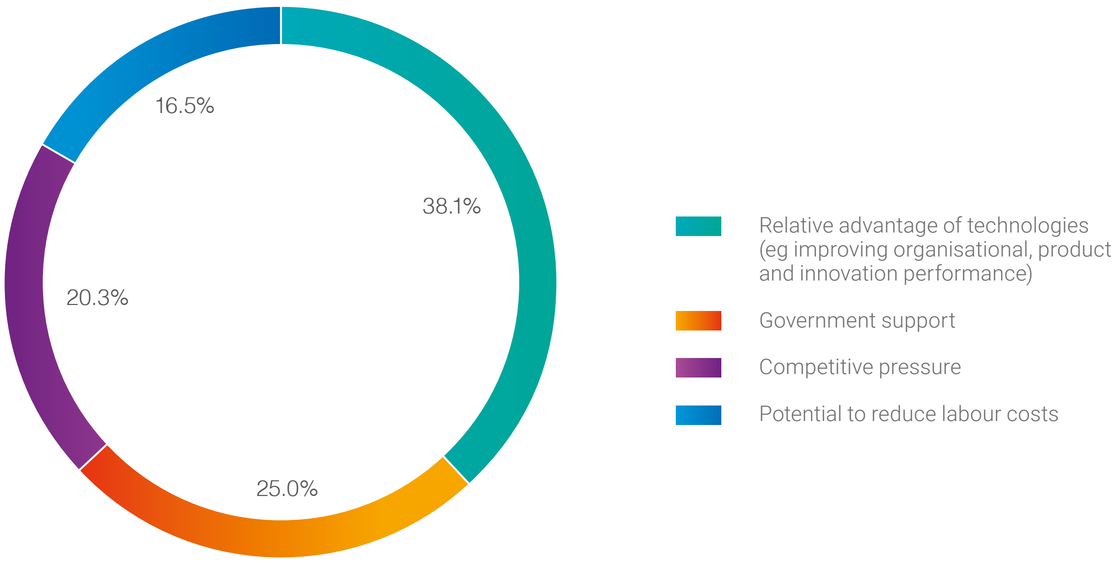
The positive sentiment among survey participants with regards to digital forwarders suggests that these platforms will show resilience despite the challenging market conditions, with shippers willing to place more volumes on their platforms in the next 5 years. This optimism comes despite the recent struggles among digital forwarders which have brought into question whether full digitalisation is enough for digital forwarders to thrive. Those start-ups that failed to build a sustainable business case during Covid when demand for forwarding services was strong will find it more challenging to succeed in a much-changed market.

In their early days, digital forwarders used the venture capital they've raised to "buy market share" by offering shippers discounted rates. The discounted rates and the strong technology offering was one of the main reasons for their rapid growth and scaling. However, now that venture capital finding is drying up, and investors are being more cautious and are putting a greater focus on profitability rather than growth, digital forwarders will find it more challenging to grow their businesses whilst remaining profitable.

However, a note of caution is sounded by respondents. At the end of 2022, volumes shipped and booked through digital forwarders amounted to 47.7%, which represents a drop of 9.9 percentage points compared to 2023. The assumption was that the adoption rate should increase over time as the technology matures and the digital forwarders gain scale, however the year-on-year comparison of survey results indicates reduced usage of digital forwarders.

Technology

What is the single most important factor that influences technology adoption in your emerging market operations?



A number of factors influence technology adoption in emerging market operations. **The relative advantage of technologies, i.e. the ability of technology to improve organisational, product and innovation performance, is the most important factor. Government support is the second most important factor, with more than a quarter of supply chain executives stating that this factor is the most important factor influencing technology adoption in their emerging market operations**.

The results show that the technology-push, i.e. technology advantage is a significant driver of technology adoption. In addition, government support and competitive pressure contribute to the adoption decision and demonstrate that both market-pull and government-drive play an important role in technology adoption in emerging markets.

This has a number of implications for governments in emerging markets. For governments that are promoting Industry 4.0 or smart manufacturing, it is important to demonstrate their support for technology adoption. Preferential policies such as tax incentives, favourable loan rates, or financial subsidies are some of the initiatives that can be taken to encourage the adoption of technology.

Vietnam is one of the emerging markets that aims to position itself as a digital transformation hub in Southeast Asia. The country expects to be among the top 30 in the Digital Infrastructure Development Index by 2030. The Vietnamese government has taken a proactive approach towards promoting digitalisation, with the establishment of the Vietnam National Committee on Digital Transformation and programmes aimed at encouraging businesses to adopt digital technologies.

Some of the measures being taken by the government to increase technology adoption rates among SMEs include requirements for national data to be online and connected. Additionally, the government is aiming for 50% of all transactions from banks to be done online, while SME loans can also be completed digitally. Infrastructure improvements are also a priority, with plans to connect 80% of the country. Particularly, emerging technologies such as AI, the Internet of Things, and blockchain are areas where Vietnam holds significant potential and where more investment is expected moving forward.

Agility's Take

Data Center Campuses: The Key to MEA Digital Infrastructure

The Middle East and Africa are seeing a surge in digital infrastructure investment, including in the laying of undersea cables and development of data centers. While the first countries to see significant data center investment in these regions were the UAE and South Africa, investment is growing in other markets, including in Saudi Arabia in the Middle East, and Kenya, Nigeria and Egypt in Africa.

Since the global boom in data center development began in the late 1990s, the Middle East and Africa have been significantly undersupplied with capacity relative to their populations and GDP. That has been changing over the last few years, thanks to several factors.

Among these factors are government data security and sovereignty laws, and new regulations mandating data hosting (particularly government data) inside the countries. Apart from new regulatory and legal factors, there is the tremendous growth of broadband penetration and streaming content consumption, along with the rising adoption of cloud application and technologies like AI and IoT. The government of Bahrain, for example, moved 85% of its data to the cloud in 2022.

On the data center front, about 70 new facilities have been built across Africa between 2018 and 2022. Africa's commercial hosting capacity has surged and is now doubling every three years. DCByte forecasts 5,000MW of capacity will be built in Africa between 2022 and 2026 with $10 billion a year spent on data center development in region by 2026. The countries seeing the most investment in Africa thus far are South Africa, Kenya, Nigeria, Ghana, Egypt and Morocco.

In the Middle East, the investment in UAE and Saudi Arabia has been the most significant. In Saudi Arabia, the Ministry of Communications and Information Technology (MCIT) recently announced an $18 billion investment program in hyperscale data centers and renewable energy by 2030, to take total data center capacity to more than 1.3GW.

Who is investing in MEA data centers?

- Cloud platforms and hyperscalers (e.g. Amazon Web Services, Microsoft, Google, Alibaba)
- International operators (e.g. Equinix, Digital Reality, NTT, Vantage)
- Regional operators (e.g. Africa Data Centers, Khazna, Gulf Data Hub)
- Telecom operators and Internet Service Providers (e.g. MTN, Orang, STC, Ooredoo, Du)

Land acquisition remains a major challenge, particularly in Africa. In several markets, it can take years to secure land titles, even after adequate due diligence.

Securing power and fiber connectivity is another challenge in some markets. And as sustainability becomes a major focus for data centers, securing renewable power has become a bigger priority for developers and host governments alike.

Regulatory regimes and carrier neutrality can present problems, as well. Some MEA governments are focused on the issue and working to create enabling regulatory environments for data centers.

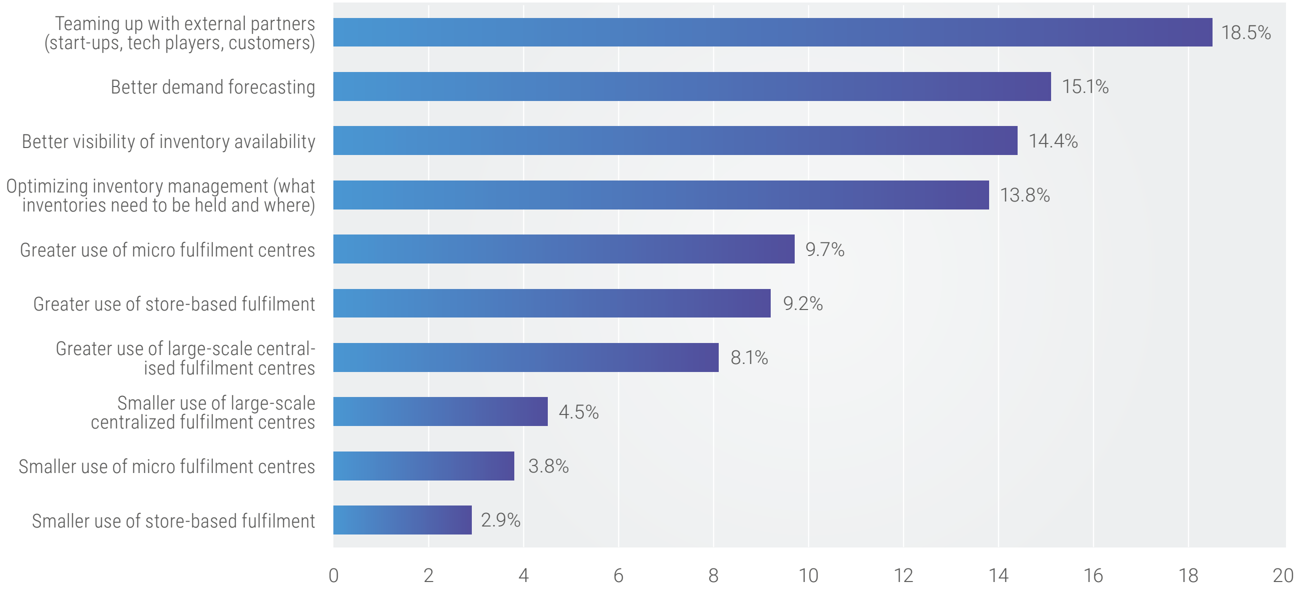
Data center campuses – dedicated sites inside secure, connected warehouse and logistics parks – solve several of the challenges that operators confront. The most immediate advantages are that the land has been acquired, and power and fiber connectivity are already available. An additional advantage is that permitting has been secured.

Data center campuses enable operators to go to market faster. An added advantage for customers is that there are significant amounts of renewable power available.

Data center operators typically are in a hurry to capture opportunities in emerging markets and looking for ways to accelerate and de-risk their entry. They can shave 12 to 24 months off deployment schedules by opting to locate on data center campuses, becoming operational faster and saving on capital costs.

e-commerce

Which of the following initiatives will you implement / have you already implemented in order to better respond to rising e-commerce demand?



'Teaming up with external partners (start-ups, tech players, customers)' is the most common initiative to better respond to rising e-commerce demand, according to survey results. This is followed by 'better demand forecasting' and 'better visibility of inventory availability'.

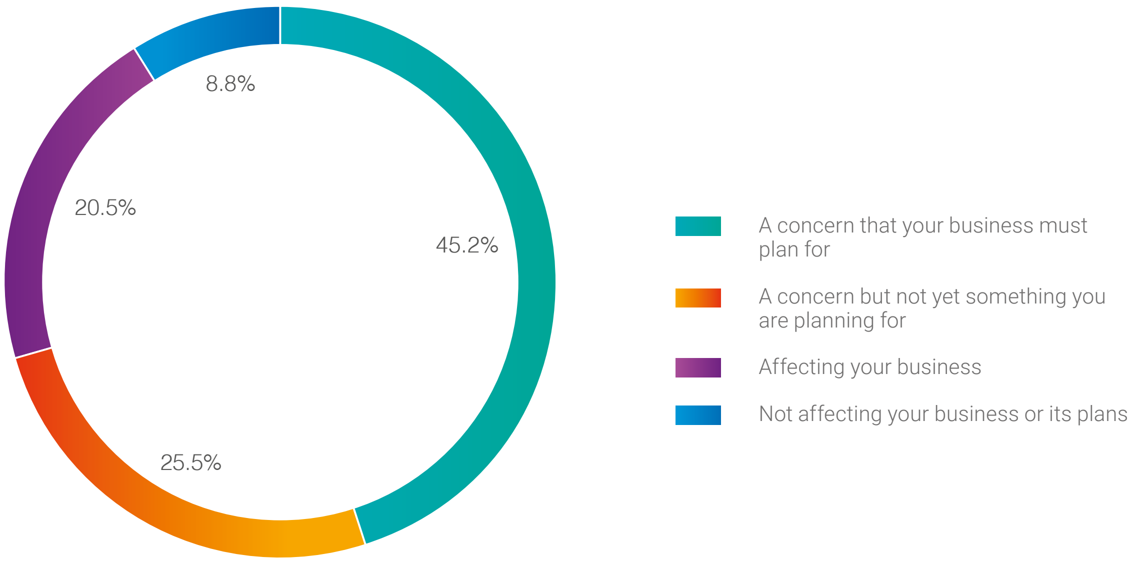
In today's age of hyper-convenience, it is vital for businesses to connect with customers and technology players in order to meet both rising e-commerce demand and consumer expectations. Since the pandemic, retailers have had to balance increased costs with faster delivery speeds to which consumers have become accustomed. Partnering with tech players has become instrumental in serving customers successfully and for enabling retailers to stay ahead of the competition. For instance, in the last few years, Walmart has rolled out a number of new initiatives to better respond to rising e-commerce demand, including drones to help with quick deliveries. By the end of 2026, Walmart plans to have around 65% of its stores serviced by automation, and expects that automated fulfilment centres will complete about 55% of orders by this time. This should reduce the average processing costs for products by up to 20%. Other examples include Microsoft's strategic partnerships with Marks & Spencer and Walgreens Boots Alliance.

According to survey results, better demand forecasting is commonly employed by companies in order to allow them to stay ahead of ever-changing demand. Retailers typically forecast demand based on sales data from previous years. However, the pandemic upended the underlying assumptions, making this sales forecasting model less accurate. As a result, some retailers are resorting to advanced analytics for demand forecasting which takes into account various demand trends and consumer behaviour.

Reimagining the physical network is another initiative that companies undertake in order to better respond to rising e-commerce demand, including a greater use of micro-fulfilment centres, store-based fulfilment and large-scale centralised fulfilment centres.

Sustainability

Disruptions caused by climate change are

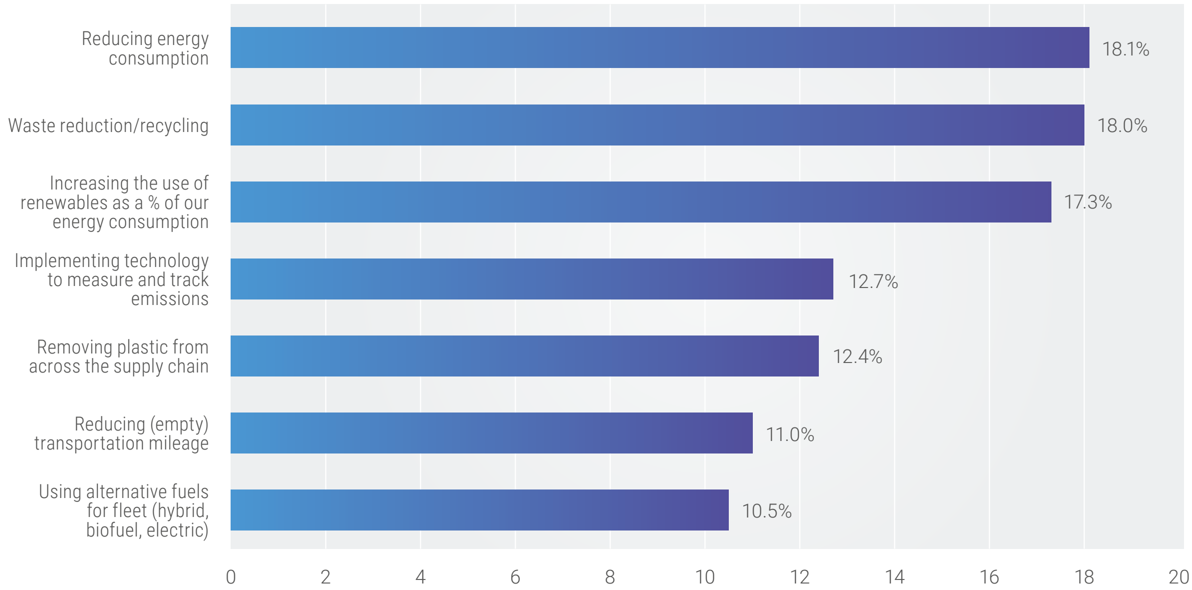


Climate-change events are already affecting around 1 in 5 organizations according to survey respondents – 20.5% of the respondents are already feeling the impact of this type of disruption and state that climate change events are affecting their business.

However, what's striking is that more than a quarter of supply chain executives don't have a plan in place to address the risks and disruptions caused by climate change – 25.5% of respondents stated that disruptions caused by climate change are 'A concern but not yet something you are planning for'. The findings suggest that even though the sense of urgency around climate change is growing, many businesses are moving slowly to adapt their businesses to climate change disruptions.

It is undeniable that businesses and governments need to take faster action to combat climate change. However, the ongoing energy crisis is seen by some as a more immediate priority than climate change and poses existential threat to climate goals and efforts to decarbonise. As the costs of climate-related disruptions and disasters escalate and regulatory pressure increases, companies will undoubtedly step up their climate change adaptation efforts.

Which of the following sustainability initiatives are among your 2024 priorities in emerging markets?



'Reducing energy consumption', 'waste reduction/ recycling' and 'Increasing the use of renewables as a % of our energy consumption' are the three most common sustainability initiatives that companies plan to undertake in 2024 priorities in emerging markets.

In light of rising energy prices, it comes as no surprise that 'Reducing energy consumption' is the most common strategy businesses plan to undertake in 2024. As energy prices continue to rise, high energy costs cut into profit margins, stop growth and expansion plans. In addition, companies in energy-intensive sectors, such as manufacturing, are particularly vulnerable to the fluctuations in energy prices, making it all the more important to reduce the burden of rising energy costs by reducing consumption.

The support of governments, lenders and corporations will be essential to the energy transition to renewables in emerging markets. At the forefront of this type of collective effort is India. Owing to technological developments, steady policy support and a vibrant private sector solar power plants in India are cheaper to build than coal ones. According to the International Energy Agency (IEA), renewable electricity is growing at a faster rate in India than any other major economy, with new capacity additions on track to double by 2026. The country is also one of the world's largest producers of modern bioenergy and has big ambitions to scale up its use. The IEA expects India to overtake Canada and China in the next few years to become the third largest ethanol market worldwide after the United States and Brazil.

Moving forward, the increasing use of renewables should become even more common in emerging markets. The IEA has warned that investment in clean energy in emerging markets will need to triple by 2030. If China is excluded, the increase is even steeper, amounting to a seven-fold rise in annual investment. Mobilising capital to emerging markets will therefore be central to make strides towards meeting net-zero targets.

Appendix 1 Sources & Methodology

Sources

The Agility Emerging Markets Logistics Index has three main components.

- First is the Overall Index: a look at the composite scores of the 50 Index emerging markets based on a combination of their domestic and international logistics markets, and their business environment.
- Second are the 4 sub-indices: Domestic Logistics Opportunities, International Logistics Opportunities, Business Fundamentals and Digital Readiness.
- Third is a survey of 830 trade and logistics industry professionals.

The Index country rankings are underpinned by data from:

- The International Monetary Fund, Organisation of Economic Cooperation and Development, World Bank, government statistical agencies, Transparency International, United Nations and UN agencies, World Economic Forum, International Trade Centre and International Air Transport Association, International Renewable Energy Agency and credit ratings agencies.
- In addition, Ti's proprietary market size and forecast data is used.

Definition

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, to reach the same level of sophistication as nations defined as 'developed'.

An emerging market is further characterized 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).

Methodology

The Agility Emerging Markets Logistics Index uses four metrics to assess and rank 50 emerging markets. The metrics measure the countries':

Domestic Logistics Opportunities (25%)

International Logistics Opportunities (25%)

Business Fundamentals (25%)

Digital Readiness (25%)

Domestic Logistics Opportunities rates the performance, potential and drivers of a country's domestic logistics market. This includes measures that assess each individual emerging market's economic strength, development and growth forecasts, as well as:

- Urbanisation of the population – a driver of manufacturers' centralized distribution strategies and the likely consolidation of retailing.
- Distribution of wealth throughout the population – indicative of widespread demand for higher-value goods.
- Cluster development – an assessment of the depth and economic development of business clusters within a market.

In addition, Ti's proprietary market sizing and forecast data is used to assess the strength of performance and potential growth opportunities within a country's domestic contract logistics and express markets.

International Logistics Opportunities rates the performance, potential and drivers of a country's international logistics market. This includes measures that assess each individual emerging market's trade volumes and tariff regimes, as well as:

- The frequency and range of destinations of its international connections across air and sea

- A rating of the efficiency of its customs and border controls.
- The value of logistics-intensive trade by a country, that is goods that account for the vast majority of volumes handled by traditional LSPs, discounting product groups such as oil and bulk items. Ti has developed a proprietary method for calculating logistics-intensive trade.

In addition, Ti's proprietary market size and forecast data is used to assess the strength of performance and growth opportunities within a country's air and sea forwarding markets, as well as each country's international express market.

Business Fundamentals assesses factors that either aid or hinder the operations of business in a country. This determines the market's regulatory and financial health, whilst also assessing the overall state of the wider business environment. Specifically, this measures:

- Market accessibility – how easy it is for foreign companies to enter and compete effectively in the market, including measures that assess their ability to deal with existing bureaucracy and regulation.
- Security – the risk to companies' operations from threats such as theft, corruption and terrorism.
- Domestic stability – wider financial health and a market's capacity to ensure property rights, enforce contracts and minimize corruption.
- Infrastructure – to what extent does underlying transport and technological infrastructure aid or hinder the growth of business.

Digital Readiness measures each market's potential to emerge as a digitally-led, skills rich, innovation-oriented and sustainable economy for the future. Specifically, this includes:

- Digital business – the spread and depth of digital skills, the strength and diversity of digital business models and the adoption of and access to online commerce.
- Business ecosystem development – systems and support for investment, innovation, value-adding commercial enterprises and the growth of new ventures.
- Sustainability – the emissions intensity and renewable energy mix powering economic development.

About Ti

Transport Intelligence (Ti) is one of the world's leading providers of expert research and analysis dedicated to the global logistics industry. Utilizing the expertise of professionals with many years of experience in the express, road freight 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.

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About Agility

Agility is a global supply chain company, and a leader and investor in technology to enhance supply chain efficiency and sustainability. It is a pioneer in emerging markets and one of the largest private owners and developers of warehousing and light industrial parks in the Middle East, Africa and Asia. Agility's subsidiary companies offer airport services, e-commerce enablement and digital logistics, customs digitization, remote infrastructure services, fuel logistics, commercial real estate and facilities management.

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