Agility Emerging Markets Logistics Index 2012

A detailed ranking and analysis of the world's major developing logistics markets

January 2012

Contents

Executive Summary

Key Findings:

- Top emerging markets are weathering the global economic slowdown better than developed economies.
- Vibrant domestic consumer markets and trade between emerging markets has made them more resilient to downturns in the developed markets that have traditionally determined their fate.
- Brazil, China and India remain economic powerhouses – places where growth is slowing but still outpaces most of the world.
- Logistics professionals believe the "Arab Spring" countries – Egypt, Libya, Tunisia and others that experienced popular unrest – are increasingly attractive business destinations.
- "Rising stars" in various categories include: United Arab Emirates (UAE), Malaysia, Vietnam, Turkey, Argentina, Oman, Morocco, Ethiopia and Kenya.

About the 2012 Agility Emerging Markets Logistics Index

The Agility Emerging Markets Logistics Index is sponsored by Agility, a global logistics provider, and compiled by *Transport Intelligence* (*Ti*), the leading provider of expert research and analysis to the global logistics industry.

This is the third year the Index has been issued. It examines 41 emerging markets and ranks them for attractiveness based on:

- Market Size and Growth
- Market Compatibility (FDI, security, urbanization, wealth distribution)
- Market Connectedness (international and domestic transport infrastructure)

Overall 2012 Rankings (Previous Year)

1. China (1)
2. India (2)
3. Brazil (3)
4. Saudi Arabia (4)
5. UAE (6)
6. Indonesia (5)
7. Russia (7)
8. Malaysia (11)
9. Chile (9)
10. Mexico (8)

Industry Survey

The Index report includes *Ti's* exclusive survey of 550 logistics industry professionals. Among the findings:

- Poor transport networks top corruption and government policies as the main barriers to business in emerging markets.
- Arab Spring countries are "open for business" in the opinion of industry professionals.
- Intra-Asian trade holds the most potential for growth in the near future.

1.0 Introduction

Global growth began to slow in mid-2011 and is expected to remain weak until 2013. While risks from the Eurozone financial crisis remain significant and recovery in the US has softened, output for a number of emerging markets is still above pre-crisis level. The developing world is set to be the global growth driver of 2012 and so, unsurprisingly for many companies looking to invest, emerging markets continue to attract ever-increasing attention.

In today's highly uncertain economic climate, recognizing opportunities and potential risks that individual markets present is even more important. As global growth has begun to slow, worries of over-heating in Asia and a number of other larger emerging markets have, to a certain extent, lessened. In China, a country that is often the focus of inflation concerns, consumer prices began to decline towards the end of 2011 and are expected to continue falling in the first half of 2012. However, despite anticipated downward pressures, commodity prices remain susceptible to shocks, and consequently risks of inflation in emerging markets are significant.

The developing world will not be immune to conditions in the West. If the situation deteriorates, global trade and capital flows will be impacted. Efforts to boost domestic demand are particularly important in order to remain resilient to potential shocks. Trade between emerging markets will also help decrease dependence on the developed world. Shipping routes between developing countries have seen significant growth over the last few years. In particular, China has become an important source of demand for many emerging markets.

While the BRIC economies (Brazil, Russia, India and China) have attracted foreign investment for some time, alternative markets - including Indonesia, Vietnam and Turkey - present increasing opportunities for logistics companies. Although these economies are smaller in size they offer a stable environment and fast growth.

Africa's large supply of natural resources continues to benefit the region, with strong demand from Asia and the Middle East. The continent, despite many remaining obstacles, shows increasing promise for investors. Commodity prices will have a significant impact on Africa's performance in 2012. If demand from Asia remains reasonably strong, the continent will be less exposed to possible shocks from Europe.

2.0 Agility Emerging Markets Logistics Index 2012

The Agility Emerging Markets Logistics Index 2012 compares the major emerging markets on a number of different metrics, identifying the key attributes which will make the market attractive from the point of view of logistics, air cargo, shipping lines and freight forwarders.

The overall index has been built up through three sub-indices: 'market size and growth attractiveness'; 'market compatibility'; and 'connectedness'.

The 'market size and growth attractiveness' sub-index rates a country's economic output, its projected growth rate and population size. Financial stability, a measure of a country's vulnerability to a national and international financial crisis, was added to the sub-index this year. In order to allow year-on-year comparison, last year's scores have been restated to account for this.

The 'market compatibility' sub-index identifies how compatible a market is with the services which global logistics companies provide. For instance it measures:

- A country's development in terms of the importance of its service sector (indicative of the level of out-sourcing of logistics requirements);
- Urbanisation of population (a driver of manufacturers' centralised distribution strategies and the likely consolidation of retailing);
- Distribution of wealth throughout the population (indicative of the widespread need for higher value goods often produced by international manufacturers);
- Foreign Direct Investment (FDI) (this is an indicator for the penetration of an economy by international companies);
- Market accessibility (the regulatory regime facilitating – or impeding – the entrance of foreign companies to the market. This includes factors such as bureaucracy, regulations etc);
- Security (measuring the risk to companies' operations from threats such as piracy and terrorism).

The 'Connectedness' sub-index rates a country's international and domestic transport infrastructure links as well as the level of service it receives. It involves:

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

From these three sub-indices, a weighted, total rating and ranking has been developed using established statistical techniques.

The index has been set out firstly in its full version, showing each of the three sub-indices for the 41 countries surveyed, and the total index score, on which the countries have been sorted. Following this, the countries have been split into two sections based on size of GDP. This makes it possible to compare the performance of the large emerging markets (GDP over $300 bn) and the smaller emerging markets (GDP under $300 bn) more meaningfully.

Section Four, 'Emerging Market Trade Lanes', compares trade links between the 41 emerging markets and the EU and US. The index analyses growth of trade lanes by tonnage between 2005 and 2011, revealing which emerging markets remain -and which have become- important shipping routes.

Ti has undertaken a global electronic survey of logistics providers to complement the Index, providing insight on which emerging markets hold the greatest levels of potential and why. The results of this survey are contained in Section Five.

3.0 Analysis and results of the index

China remains the most attractive market for investment in the 2012 index, retaining top place for 'market size and growth attractiveness' and second place in terms of 'connectedness'. The country's position for 'market compatibility' (ninth) remains somewhat lower, although it increased one place in this year's index. China's score for 'market size and growth attractiveness' improved further this year, driven by an increase in its financial stability score. With improvements in all three sub- indices the country's overall score saw a reasonably strong increase, consequently widening the gap between China and alternative investment markets.

India, which retained second place, also saw improvements in all of the sub-indices resulting in an increase in its overall score, although growth occurred at a lower rate than China. The market continues to be held back by its 'compatibility' and 'connectedness' scores, which remain below average. In contrast, **Brazil** scores above average in all three sub- indices, although its score for 'connectedness' remains somewhat lower. Despite an improvement this year, Brazil's infrastructure score remains weak considering the overall size of Brazil's economy. The Brazilian government's Growth Acceleration Programme allocated $373 bn for spending on infrastructure improvements between 2007 and 2010, and despite criticism of the relative success of the project, some improvements seem to have been made. Investment in infrastructure is set to increase in preparation for the 2014 World Cup and 2016 Olympic Games. Brazil's overall score increase was driven by improvements in its 'market compatibility' and 'market size and growth attractiveness' sub-indices. Despite improvements in infrastructure, the country's score for 'connectedness' saw no change.

Saudi Arabia saw a strong increase in its score despite remaining unchanged in the rankings. At the top of the 'market compatibility' sub- index, its market is easily accessible for foreign companies, with very few barriers to entry. Neighbouring **UAE** moved up to fifth place, overtaking **Indonesia**. The UAE continues to take the top spot in terms of 'connectedness'. Financed by the energy boom, the country has undergone significant growth in infrastructure development over the last three decades, and government spending in this area is set to continue. The UAE also benefits from strong shipping connections and liberal market access as a result of free trade agreements and low trade barriers.

It can be observed that Middle Eastern countries tend to score highly in terms of both 'market compatibility' and 'connectedness'. Saudi Arabia, UAE, **Oman** and **Qatar** all rank in the top 5 for 'market compatibility' and top 10 for 'connectedness'. However, with the exception of Saudi Arabia, these countries are all classed as 'smaller' economies (with GDP of less than $300 bn), thus limiting their attractiveness in terms of 'market size and growth'.

Russia's index score is the lowest of the 'BRIC' economies, and only recorded a small increase in the 2012 index. The country relies on oil and gas exports, and consequently Russia's economy is vulnerable to commodity price fluctuations. Russia scores below average in terms of security threats and ease of access to the market, burdened by corruption and political unrest. However, with more raw materials than China, India and Brazil, and low income inequality, the country does have reasonably strong investment appeal. The modest increase in Russia's score was a result of improvements in its 'connectedness' score.

Kazakhstan was the biggest mover up the rankings, climbing four places. Despite this, the country did not see a substantial increase in its score. Kazakhstan was driven upwards by small increases in its 'connectedness' and 'market compatibility' sub-indices; its score for 'market size and growth attractiveness' fell.

Despite an improvement in its score, Indonesia fell one place in the 2012 rankings. The country lacks consistency among the sub- indices; highly attractive in terms of 'market size and growth', however less so in terms of 'market compatibility' and 'connectedness'. The improvement seen in Indonesia's score was a result of an increase in market size; its 'connectedness' index saw almost no change, whilst its 'market compatibility' score declined.

Moving down to tenth place, **Mexico's** score has seen continuing decline. High levels of crime and violence caused by drug-related trafficking has worsened in recent years. Consequently, the country's score for 'market compatibility' - which was already substantially lower than other economies of a similar size - declined. In the past Mexico's geographical location and strong connections with the US have been major advantages for the country and its investment potential. Since the global recession - during which Mexico's economy was hit hard as a result of reduced exports to the US - this has become less of a benefit. This is not to say that Mexico does not have some advantages. The country has still seen reasonable economic growth in recent years, albeit lower than the BRIC markets, and benefits from a strong service sector. Surprisingly, foreign direct investment into the country has not been deterred by the increasing violence, and remains relatively high, indicating fairly unproblematic penetration of the economy by international companies.

South Africa's overall score remained stable, although the market saw some changes among the sub- indices. Its 'market size and growth attractiveness' and 'connectedness' scores declined, whilst its 'market compatibility' score increased. The country's highly uneven income distribution, as well as high levels of crime and violence, means that despite improvements in 'market compatibility' the country remains below average in this respect. Now added by some to the BRIC(S) grouping, South Africa ranks substantially lower in terms of 'market size and growth attractiveness' compared with the other four economies. However, in terms of 'connectedness' the only BRIC to score above South Africa is China.

The biggest mover down the rankings was **Jordan**, which fell six places. The country saw a significant decline in the 'connectedness' sub- index as a result of declines in scores for both shipping and infrastructure. The country's score for 'market compatibility' increased. Unlike other countries in the Middle East, Jordan does not benefit from large supplies of oil and natural resources and has one of the smallest economies in the region. Consequently the country ranks particularly poorly in terms of 'market size and growth attractiveness'.

The 'Arab Spring' resulted in declines among the rankings of both **Tunisia** - down two places - and **Egypt** - down one place. For both countries scores for 'market compatibility' declined as a result of increased security risks to the operations of potential investors.

At the foot of the index, **Bolivia** has fallen two places, scoring poorly in all three sub-indices. The country, one of the poorest countries in South America, suffers from high levels of poverty and income inequality. While **Paraguay** moved up three places, its overall score still saw a decline. The country recorded improvements in its 'market size and growth attractiveness' and 'market compatibility' indices, while its 'connectedness' score declined.

The three East African countries included in the index- **Kenya, Tanzania** and **Ethiopia** - also sit towards the bottom of the table. Ethiopia, scores reasonably well in terms of 'market compatibility', pushing up its overall score. This is as a result of lower potential security threats compared with the other two markets. Investment into these countries tends to be focused on niche markets.

Table 1: Agility Emerging Markets Logistics Index

Ranking	Country	2012 Total Index	2011 Total Index	Change in ranking from previous year
1	China	8.58	8.07	-
2	India	6.96	6.64	-
3	Brazil	6.84	6.54	-
4	Saudi Arabia	6.70	6.27	-
5	UAE	6.49	6.09	up 1
6	Indonesia	6.44	6.26	down 1
7	Russia	6.29	6.06	-
8	Malaysia	6.01	5.60	up 3
9	Chile	5.97	5.78	-
10	Mexico	5.84	5.93	down 2
11	Turkey	5.80	5.65	down 1
12	Oman	5.75	5.57	-
13	Qatar	5.68	5.39	-
14	Thailand	5.40	5.30	-
15	South Africa	5.24	5.21	up 1
16	Kuwait	5.14	4.98	up 3
17	Bahrain	5.10	5.21	down 2
18	Egypt	5.04	5.10	down 1
19	Uruguay	4.86	4.78	up 3
20	Tunisia	4.78	5.08	down 2
21	Morocco	4.76	4.66	up 3
22	Argentina	4.72	4.80	down 1
23	Peru	4.72	4.65	up 2
24	Ukraine	4.63	4.78	down 1
25	Kazakhstan	4.55	4.44	up 4
26	Jordan	4.53	4.84	down 6
27	Vietnam	4.52	4.51	-
28	Philippines	4.38	4.55	down 2
29	Colombia	4.36	4.28	up 2
30	Pakistan	4.30	4.48	down 2
31	Bangladesh	4.24	4.15	up 3
32	Libya	4.16	4.40	down 2
33	Nigeria	4.15	4.21	-
34	Algeria	4.04	4.25	down 2
35	Ecuador	3.72	4.03	up 1
36	Ethiopia	3.65	3.87	up 1
37	Venezuela	3.64	4.05	down 2
38	Paraguay	3.35	3.49	up 3
39	Tanzania	3.25	3.73	down 1
40	Kenya	3.21	3.52	-
41	Bolivia	3.12	3.55	down 2

Source: Transport Intelligence. Note: Due to political unrest in Libya, data for some indicators was not available; in this case the previous year's data was used. *Please also note: Kuwait and Libya were added to the Index this year. Also, financial stability, a measure of a country's vulnerability to national and international financial crisis, was added to the sub-index. To allow a year-on-year comparison, the 2011 scores have been updated to account for these changes.*

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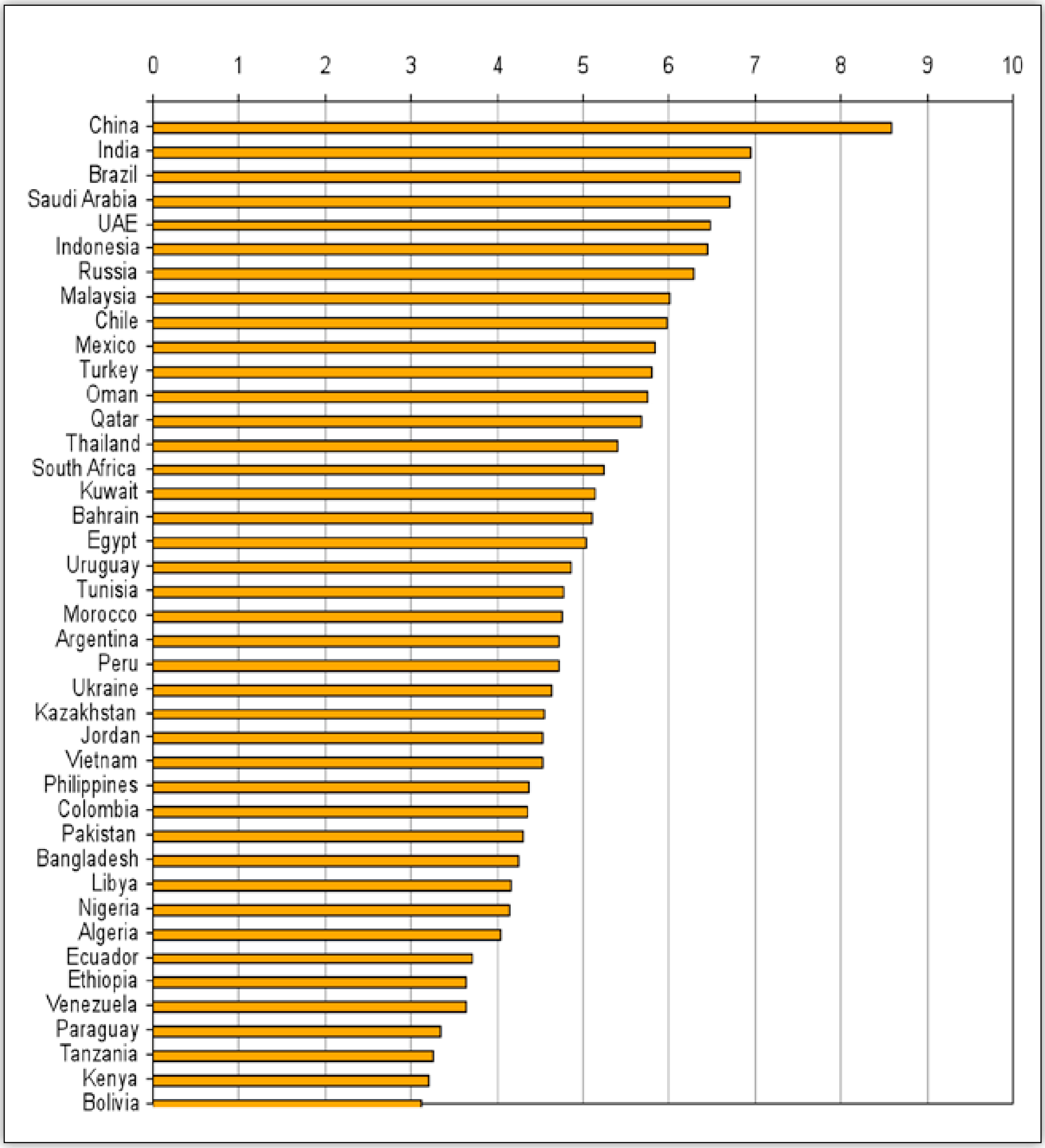
Figure 1: Total Index Scores



Source: Transport Intelligence

Figure 2: Agility Emerging Markets Logistics Index - Top Movers Up and Down

BIGGEST MOVERS UP

1. Kazakhstan
2. Malaysia
3. Kuwait
4. Bangladesh
5. Morocco
6. Uruguay
7. Paraguay
8. Colombia
9. Peru
10. UAE

BIGGEST MOVERS DOWN

1. Jordan
2. Bolivia
3. Venezuela
4. Tunisia
5. Libya
6. Algeria
7. Pakistan
8. Philippines
9. Bahrain
10. Mexico

Source: Transport Intelligence

Table 2: Agility Emerging Markets Logistics Index Sub-Indices

Ranking	Country	Market size & growth attractiveness sub-index	Market compatibility sub-index	Connectedness sub-index	Total Index	Change in ranking from previous year
1	China	10.00	6.69	7.58	8.58	-
2	India	9.15	4.87	4.88	6.96	-
3	Brazil	8.32	6.03	5.05	6.84	-
4	Saudi Arabia	5.96	8.46	6.76	6.70	-
5	UAE	4.74	8.10	8.17	6.49	up 1
6	Indonesia	8.56	4.27	4.51	6.44	down 1
7	Russia	7.57	5.06	5.07	6.29	-
8	Malaysia	5.44	6.02	6.88	6.01	up 3
9	Chile	5.04	6.94	6.81	5.97	-
10	Mexico	7.29	3.75	4.90	5.84	down 2
11	Turkey	6.77	4.73	4.97	5.80	down 1
12	Oman	4.12	7.93	6.90	5.75	-
13	Qatar	4.59	7.35	6.34	5.68	-
14	Thailand	5.97	3.93	5.42	5.40	-
15	South Africa	5.42	4.33	5.52	5.24	up 1
16	Kuwait	4.46	7.35	4.81	5.14	up 3
17	Bahrain	3.86	6.39	6.20	5.10	down 2
18	Egypt	5.58	3.36	5.24	5.04	down 1
19	Uruguay	3.44	7.68	5.32	4.86	up 3
20	Tunisia	3.95	6.37	5.08	4.78	down 2
21	Morocco	4.07	5.62	5.28	4.76	up 3
22	Argentina	4.71	5.01	4.56	4.72	down 1
23	Peru	4.69	4.40	4.96	4.72	up 2
24	Ukraine	3.95	6.08	4.78	4.63	down 1
25	Kazakhstan	4.03	5.76	4.62	4.55	up 4
26	Jordan	3.19	6.74	5.24	4.53	down 6
27	Vietnam	4.81	4.24	4.25	4.52	-
28	Philippines	5.23	3.61	3.54	4.38	down 2
29	Colombia	5.07	1.56	4.99	4.36	up 2
30	Pakistan	5.39	2.21	3.91	4.30	down 2
31	Bangladesh	4.84	4.73	3.02	4.24	up 3
32	Libya	3.21	3.74	5.87	4.16	down 2
33	Nigeria	5.34	2.89	3.09	4.15	-
34	Algeria	4.26	3.14	4.24	4.04	down 2
35	Ecuador	2.75	3.37	5.41	3.72	up 1
36	Ethiopia	3.29	5.16	3.26	3.65	up 1
37	Venezuela	3.64	3.28	3.85	3.64	down 2
38	Paraguay	2.81	3.98	3.78	3.35	up 3
39	Tanzania	3.10	3.97	3.04	3.25	down 1
40	Kenya	3.00	3.10	3.60	3.21	-
41	Bolivia	2.92	3.29	3.31	3.12	down 2

Source: Transport Intelligence

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Table 3: Agility Emerging Markets Logistics Index for Countries with GDP of more than US$300bn

Ranking	Country	Market size & growth attractiveness sub-index	Market compatibility sub-index	Connectedness sub-index	Total Index	Change in ranking from previous year
1	China	10.00	6.69	7.58	8.58	-
2	India	9.15	4.87	4.88	6.96	-
3	Brazil	8.32	6.03	5.05	6.84	-
4	Saudi Arabia	5.96	8.46	6.76	6.70	-
5	Indonesia	8.56	4.27	4.51	6.44	-
6	Russia	7.57	5.06	5.07	6.29	-
7	Malaysia	5.44	6.02	6.88	6.01	up 2
8	Mexico	7.29	3.75	4.90	5.84	down 1
9	Turkey	6.77	4.73	4.97	5.80	down 1
10	Thailand	5.97	3.93	5.42	5.40	-
11	South Africa	5.42	4.33	5.52	5.24	-
12	Egypt	5.58	3.36	5.24	5.04	-
13	Argentina	4.71	5.01	4.56	4.72	-
14	Ukraine	3.95	6.08	4.78	4.63	-
15	Philippines	5.23	3.61	3.54	4.38	-
16	Colombia	5.07	1.56	4.99	4.36	up 1
17	Pakistan	5.39	2.21	3.91	4.30	down 1
18	Nigeria	5.34	2.89	3.09	4.15	-
19	Venezuela	3.64	3.28	3.85	3.64	-

Source: Transport Intelligence

3

Of the larger markets (GDP in excess of $300 bn) the highest performers in terms of 'market compatibility' are Saudi Arabia and China. Ukraine also scores fairly well in this respect, especially considering the country is the smallest of the 'larger' economies. In contrast, Colombia continues to score poorly for 'market compatibility', and recorded a considerable decline in its score for this sub-index. High income inequalities and strong potential security risks mean the market remains extremely challenging to potential investors.

China and Malaysia have the best transport connectivity of the larger economies, with strong shipping and infrastructure links, as well as reasonably unproblematic customs procedures. Nigeria stands out as having the poorest 'connectivity'.

Of the smaller markets (GDP of less than $300 bn) the UAE remains the most attractive, scoring highly for both 'market compatibility' and 'connectedness'. Oman also scores well in these two sub-indices, considering the overall size of its economy. Bangladesh, one of the largest 'smaller' economies, scores particularly poorly in terms of transport connectivity. Poor shipping, air, road and transport infrastructure, as well as troublesome customs procedures place Bangladesh as the least attractive market in this respect.

Table 4: Agility Emerging Markets Logistics Index for Countries with GDP of less than US$300bn

Ranking	Country	Market size & growth attractiveness sub-index	Market compatibility sub-index	Connectedness sub-index	Total Index	Change in ranking from previous year
1	UAE	4.74	8.10	8.17	6.49	-
2	Chile	5.04	6.94	6.81	5.97	-
3	Oman	4.12	7.93	6.90	5.75	-
4	Qatar	4.59	7.35	6.34	5.68	-
5	Kuwait	4.46	7.35	4.81	5.14	up 2
6	Bahrain	3.86	6.39	6.20	5.10	down 1
7	Uruguay	3.44	7.68	5.32	4.86	up 2
8	Tunisia	3.95	6.37	5.08	4.78	down 2
9	Morocco	4.07	5.62	5.28	4.76	up 1
10	Peru	4.69	4.40	4.96	4.72	up 1
11	Kazakhstan	4.03	5.76	4.62	4.55	up 2
12	Jordan	3.19	6.74	5.24	4.53	down 4
13	Vietnam	4.81	4.24	4.25	4.52	down 1
14	Bangladesh	4.84	4.73	3.02	4.24	up 2
15	Libya	3.21	3.74	5.87	4.16	down 1
16	Algeria	4.26	3.14	4.24	4.04	down 1
17	Ecuador	2.75	3.37	5.41	3.72	-
18	Ethiopia	3.29	5.16	3.26	3.65	-
19	Paraguay	2.81	3.98	3.78	3.35	up 3
20	Tanzania	3.10	3.97	3.04	3.25	down 1
21	Kenya	3.00	3.10	3.60	3.21	-
22	Bolivia	2.92	3.29	3.31	3.12	down 2

Source: Transport Intelligence

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3.1 Sub-Indices ranking

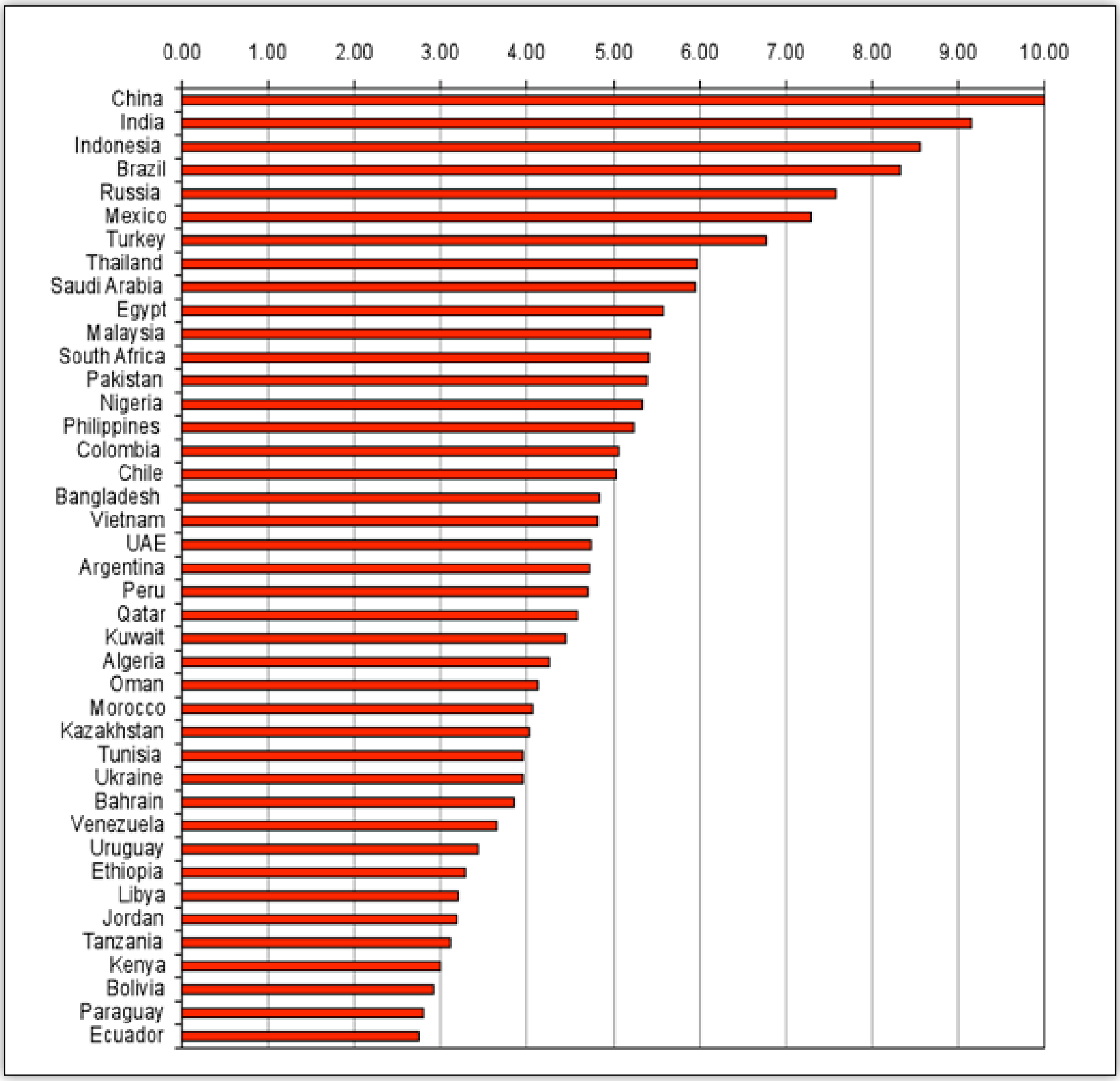
3.1.1 Market size and growth attractiveness sub-index

The 'market size and growth attractiveness' sub-index is calculated based on a country's economic output; projected growth; population size; and financial stability.

Unsurprisingly, China and India score top, with China obtaining the maximum possible score for this sub-index.

Indonesia, Brazil and Russia make up the remaining top five. Bolivia, Paraguay and Ecuador rank poorly for this sub-index offering few opportunities for investors.

Figure 3: Market size and growth attractiveness sub-index scores

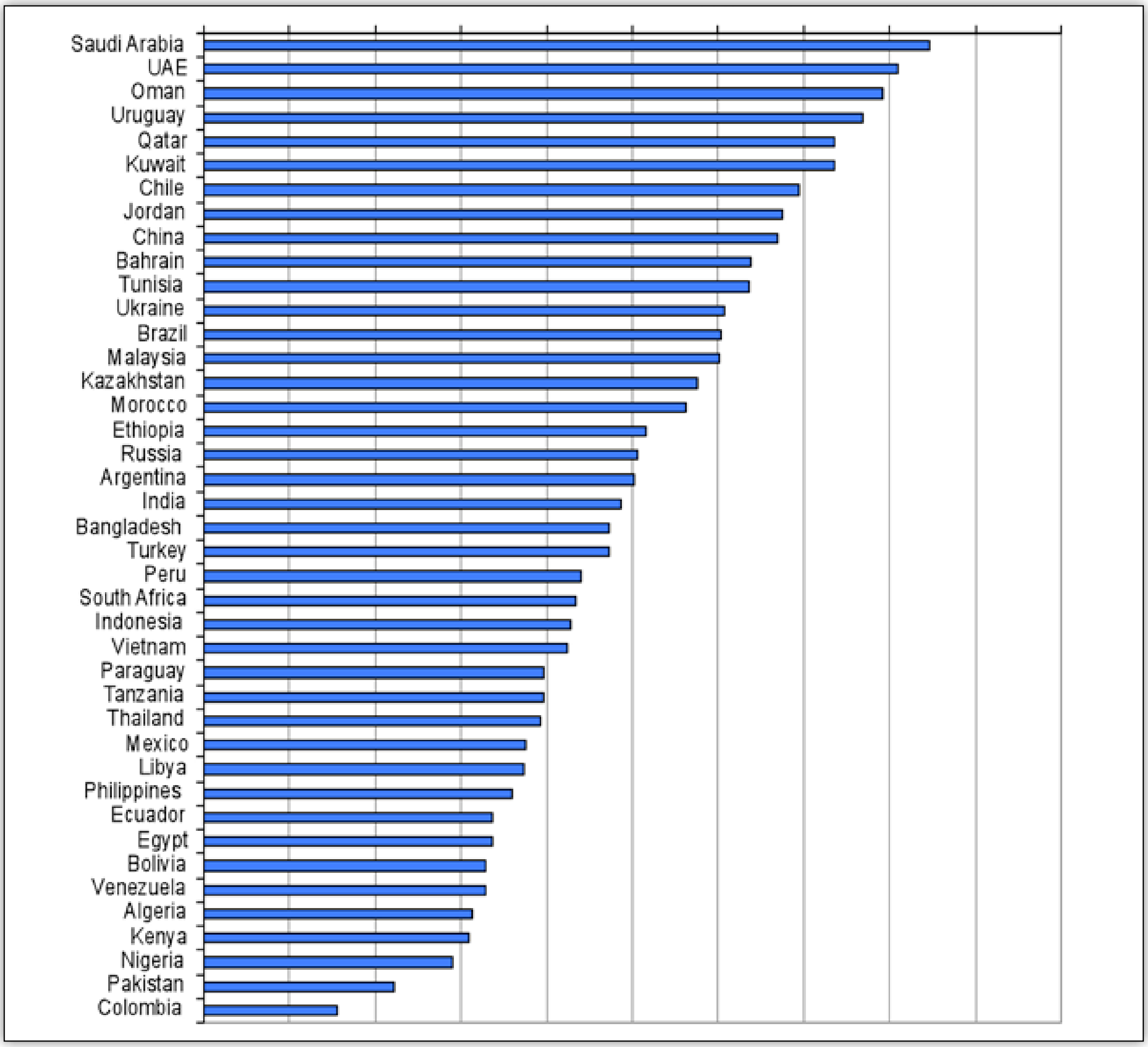


Source: Transport Intelligence

3.1.2 Market compatibility sub-index

The Middle Eastern countries included in the index score particularly well in terms of 'market compatibility', accounting for seven out of the top ten markets in this respect. Uruguay, Chile and China also score highly for this sub-index. Colombia, Pakistan and Nigeria score poorly as a result of lower than average levels of foreign direct investment, poor market access and potentially high business costs from crime and violence.

Figure 4: Market compatibility sub-index scores

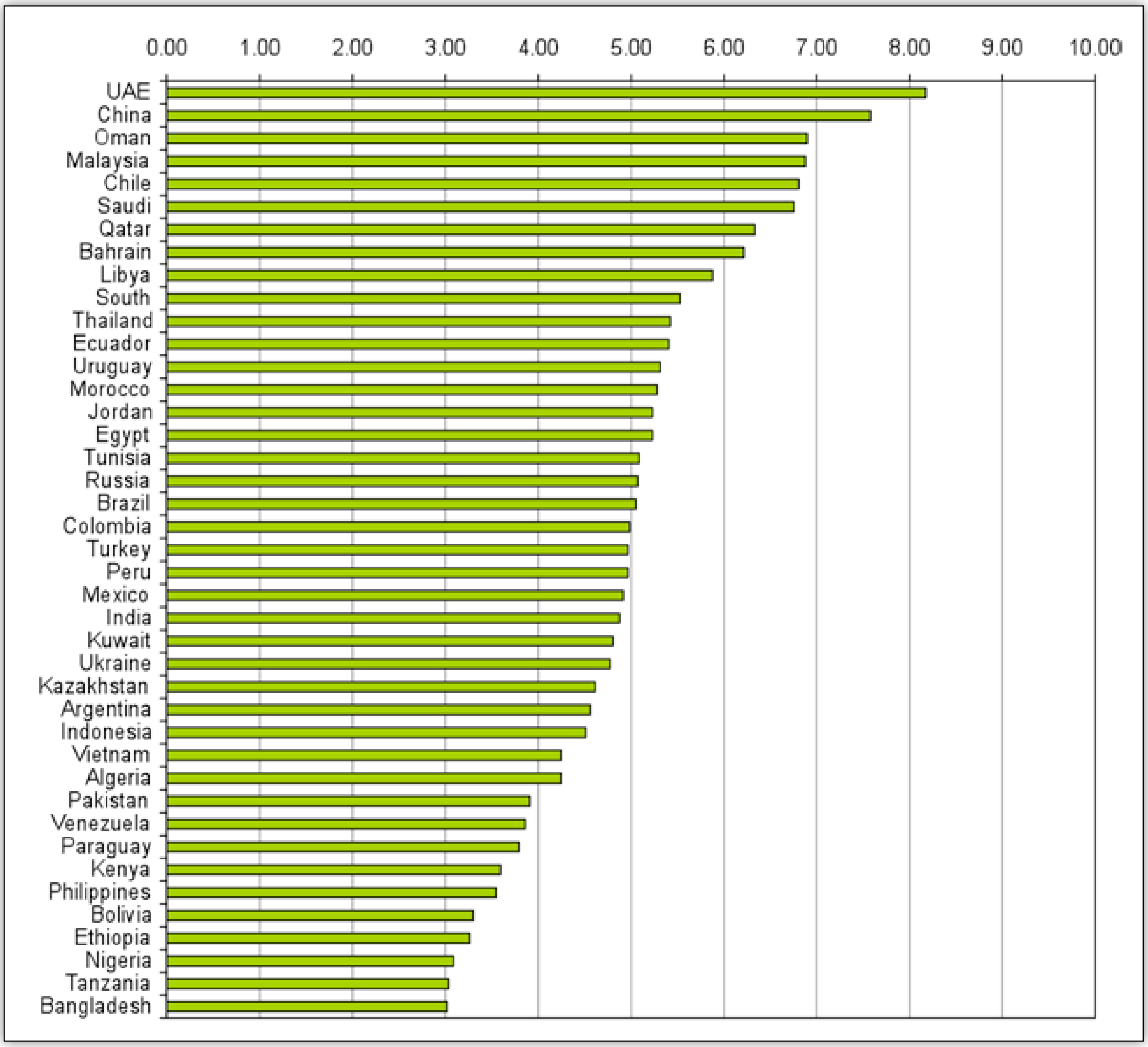


Source: Transport Intelligence

3.1.3 Connectedness sub-index

The UAE, China and Oman rank top in terms of 'connectedness', benefitting from strong infrastructure, liner shipping connections, airport density and efficient customs procedures. At the other end of the scale Nigeria, Tanzania and Bangladesh score poorly in these criteria.

Figure 5: Connectedness sub-index scores



Source: Transport Intelligence

3.2 Emerging Markets Quadrant

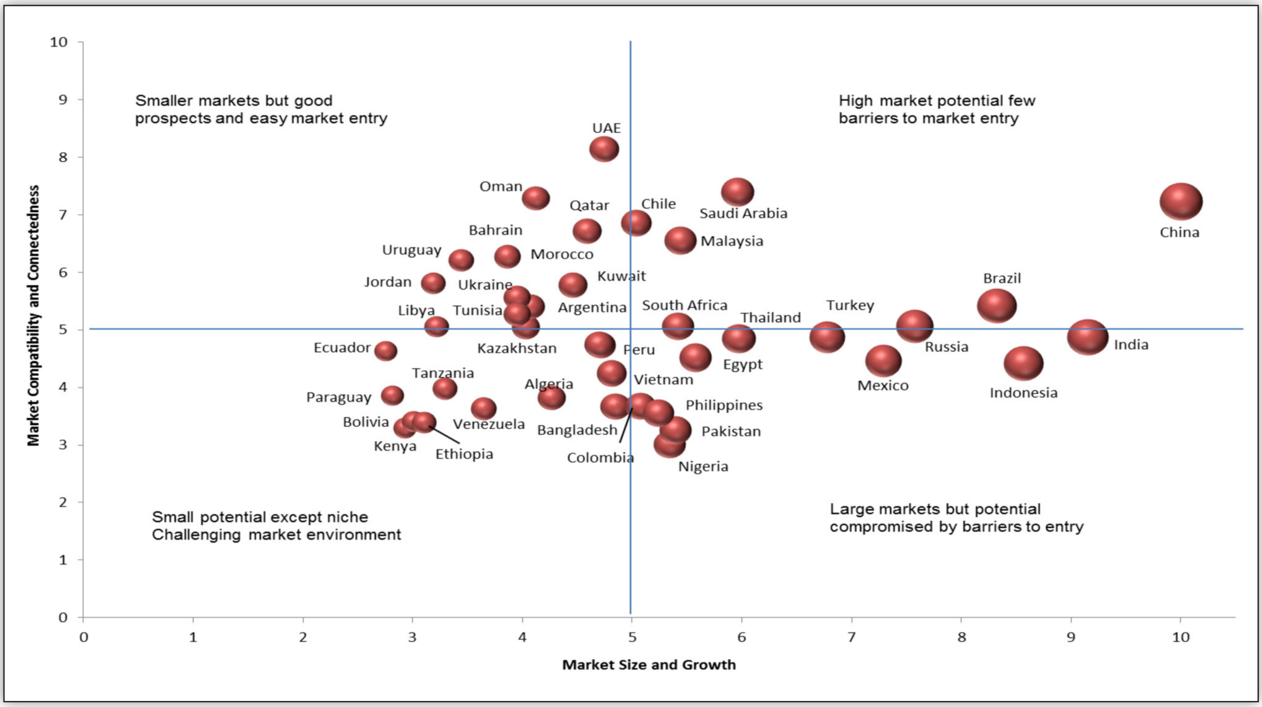
Figure 6 presents the relative positions of the countries in the index, with the size of the bubble representing the extent of the opportunity. The four quadrants divide markets in terms of size and potential barriers to entry (an average of the 'market compatibility' and 'connectedness' sub-indices).

Countries in the top right quartile represent the biggest targets for logistics investment as well as the easiest markets in which to operate. China stands out in this section holding the maximum possible score for size and growth opportunities; however, the country could still continue to see improvements in terms of 'market compatibility' and 'connectedness'.

In the top left quartile are those countries which represent smaller market opportunities, but are also easily penetrated, such as the UAE, Oman and Qatar.

The bottom half of the chart includes countries in which there are significant barriers to entry and difficulties in operating. As these economies become more mature, de-regulated and better connected with the global markets, they will move towards the upper quartiles. Although Nigeria is classed as a larger market, scoring above average in this respect, the country is held back by potential barriers to entry.

Figure 6: Emerging Market Potential Quadrant



Source: Transport Intelligence

4.0 Emerging Market Trade Lanes

The shift of global manufacturing to lower cost economies has resulted in an increasing importance in the role of emerging markets in global trade. Changes in world trade flows have led to the emergence and growth of new shipping routes. With demand in developed economies expected to remain weak over the next couple of years, emerging markets will become increasingly important. The trade lane index measures changes in the volume of goods shipped by air and sea between the 41 emerging markets included in the logistics index and the EU and US.

4.1 Trade by Sea

4.1.1 Top Trade Lanes

In 2011, Europe is expected to overtake the US as China's top trading partner. China's exports to the EU (by sea) are estimated at 50.48m tons for the year; while exports to the US (by sea) will total 48.76m tons. Exports from China to the EU have increased 42% between 2005 and 2011. This compares to growth of 7% for total emerging market exports. Argentina's exports to Europe (primarily agricultural goods and raw materials) also rank highly, taking fourth place in the top ten trade lanes.

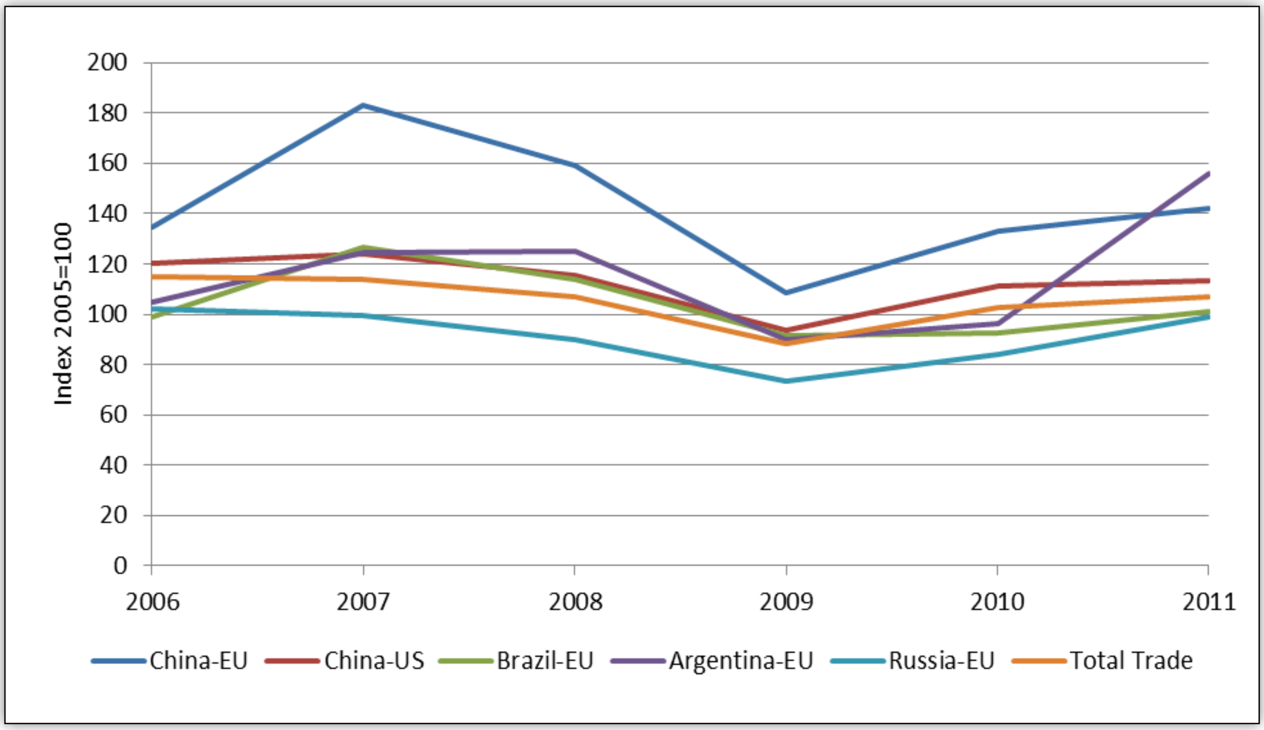
Table 5: Sea Freight Top 10 Trade Lanes - Emerging Market to US/EU

Rank	Origin	Destination	2011 Tons*
1	China	EU	50,479,407
2	China	US	48,761,304
3	Brazil	EU	33,199,950
4	Argentina	EU	28,435,061
5	Russia	EU	27,566,855
6	Turkey	EU	18,778,739
7	Ukraine	EU	14,435,472
8	South Africa	EU	13,081,898
9	India	EU	11,221,404
10	Egypt	EU	8,207,999

Source: Transport Intelligence **Preliminary Estimates*

4

Figure 7: Sea Freight Top Trade Lanes- Emerging Market- EU/US



Source: Transport Intelligence

With a subdued economic environment in both Europe and the US, domestic demand from emerging markets is expected to be a significant driver of future economic growth. China's imports from the EU, which account for the largest trade lane, have increased by 96% between 2005 and 2011.

Turkey also imports a significant tonnage of goods by sea from the EU. Emerging market imports from both the US and EU have recorded rapid growth since 2005; total imports have risen 91% over the six year period.

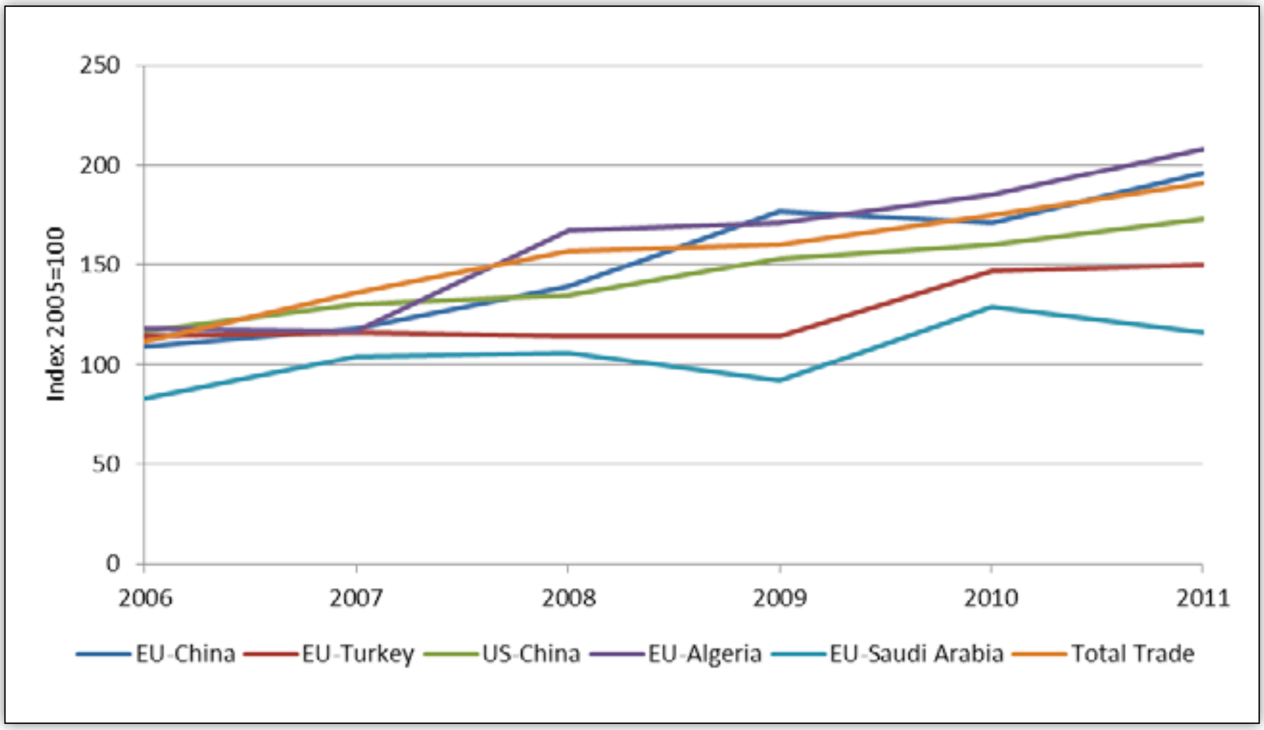
4

Table 6: Sea Freight Top 10 Trade Lanes- US/EU to Emerging Market

Rank	Origin	Destination	2011 Tons*
1	EU	China	34,280,211
2	EU	Turkey	27,971,873
3	US	China	22,565,082
4	EU	Algeria	15,465,878
5	EU	Saudi Arabia	10,378,581
6	EU	India	9,817,316
7	EU	Brazil	9,652,724
8	EU	Russia	9,652,391
9	EU	Egypt	9,551,609
10	EU	Morocco	9,026,589

Source: Transport Intelligence **Preliminary Estimates*

Figure 8 : Sea Freight Top Trade Lanes- EU/US- Emerging Market



Source: Transport Intelligence

4.1.2 Fastest Growing Trade Lanes

Between 2005 and 2011, the volume of non-oil trade from Oman to the EU has increased almost tenfold. Oman's exports to the US have also seen significant growth. Increasing non-energy based exports was identified as a key objective by the Omani Centre for Investment Promotion and Export Development, and a five year plan running from 2005 to 2010 was adopted. Consequently non-oil exports, which previously accounted for an insignificant volume, recorded a considerable increase.

Other countries in the Middle East - Qatar, Saudi Arabia, UAE and Kuwait - also rank among the fastest growing trade lanes. Like Oman, these countries have been focusing on diversifying outside the energy sector through increasing non-oil exports. Moroccan exports to the US also saw a significant increase growing at a CAGR of 44% over the six years. Growth is expected to be particularly strong in 2011.

Table 7: Sea Freight Fastest Growing Trade Lanes- Emerging Market to US/EU (2005=100)

Rank	Origin	Destination	2007 Index	2008 Index	2009 Index	2010 Index	2011 Index*	CAGR 2005-2011
1	Oman	EU	111	517	623	1,096	979	46.3%
2	Morocco	US	153	172	184	234	890	44.0%
3	Qatar	US	126	208	22	341	709	38.6%
4	Oman	US	100	215	308	502	485	30.1%
5	Bolivia	EU	161	271	289	374	298	20.0%
6	Saudi Arabia	US	313	305	122	190	296	19.8%
7	UAE	EU	158	193	186	195	273	18.2%
8	Paraguay	EU	163	125	95	272	268	17.8%
9	Kuwait	EU	141	133	208	269	215	13.6%
10	Vietnam	US	153	168	169	207	214	13.5%
11	Peru	US	117	173	137	137	189	11.2%
12	Peru	EU	107	122	106	122	183	10.6%
13	UAE	US	78	77	66	105	176	9.9%
14	Uruguay	EU	136	119	91	183	170	9.3%
15	Qatar	EU	98	117	163	78	161	8.2%
16	South Africa	US	106	112	112	170	160	8.2%
17	Tunisia	US	185	173	278	163	159	8.0%
18	Argentina	EU	125	125	90	96	156	7.7%
19	Vietnam	EU	138	139	127	141	156	7.7%
20	Mexico	EU	140	140	109	131	156	7.7%
21	Chile	EU	102	102	91	116	154	7.4%
22	Bangladesh	EU	119	135	129	138	152	7.2%
23	Bangladesh	US	127	134	129	150	149	6.9%
24	Tanzania	US	133	140	171	108	146	6.5%
25	China	EU	183	159	109	133	142	6.1%

Source: Transport Intelligence **Preliminary Estimates*

Paraguay has recorded considerable growth in imports from both the EU and the US by sea over the last six years. However growth has been driven from a small base. In terms of total tonnage shipped the country still ranks poorly compared with other emerging markets included in the index. US exports to Vietnam have also increased significantly, between 2005 and 2011 growing at a CAGR of 29.2%.

4

Table 8: Sea Freight Fastest Growing Trade Lanes- US/EU to Emerging Market (2005=100)

Rank	Origin	Destination	2007 Index	2008 Index	2009 Index	2010 Index	2011 Index*	CAGR 2005-2011
1	EU	Paraguay	139	209	196	341	773	40.6%
2	US	Vietnam	211	309	428	449	465	29.2%
3	US	Paraguay	187	337	198	404	438	27.9%
4	US	Morocco	264	323	370	326	351	23.3%
5	US	Nigeria	223	237	237	279	345	22.9%
6	US	Tunisia	182	191	277	322	334	22.2%
7	US	Algeria	193	206.0	267	299	330	22.0%
8	EU	Uruguay	119	146	163	261	307	20.6%
9	US	Oman	113	359	253	408	302	20.2%
10	US	India	154	164	237	257	298	20.0%
11	US	Uruguay	207	235	201	299	286	19.1%
12	US	Brazil	157	195.0	156	213	264	17.6%
13	US	Chile	174	203.5	163	217	263	17.5%
14	EU	Vietnam	136	168	306	313	258	17.1%
15	US	Peru	179	234	185	258	257	17.0%
16	EU	Chile	103	121	112	149	257	17.0%
17	US	Colombia	151	171	158	181	224	14.4%
18	US	Kazakhstan	186	160	111	162	221	14.1%
19	US	UAE	130	188	267	240	221	14.1%
20	US	Russia	143	195	121	180	215	13.6%
21	US	Qatar	180	248	179	225	215	13.6%
22	EU	Algeria	117	167	171	185	206	12.8%
23	EU	Russia	128	158	100	166	206	12.8%
24	EU	Argentina	141	149	96	154	202	12 .4%
25	EU	Bangladesh	79	111	138	267	198	12.0%

Source: Transport Intelligence **Preliminary Estimates*

4

4.2 Trade by Air

4.2.1 Top Trade Lanes

In terms of air transport, the largest trade relationship is also between China and the EU, with an estimated 1.13m tons of goods shipped in 2011. Kenya, Colombia, Chile and Peru also rank in the top 10. These countries export a large quantity of perishable goods which, due to their short shelf life, tend to be transported by air. Kenyan exports by air to the EU have increased 134% between 2005 and 2011.

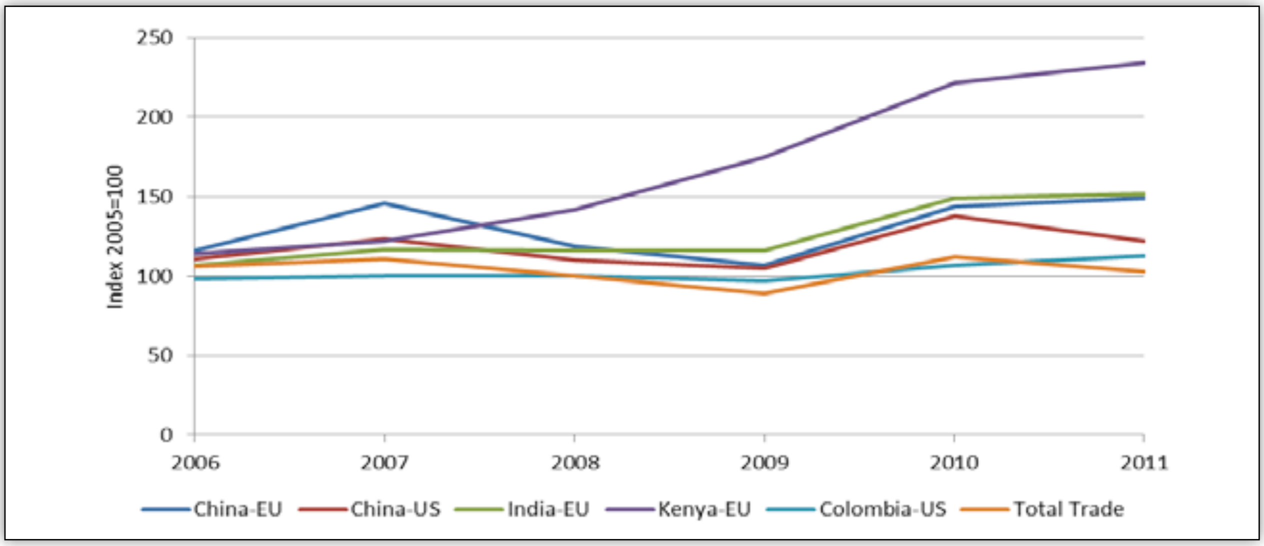
Total emerging market exports by air to the EU and US have increased just 3%.

Table 9: Air Cargo Top 10 Trade Lanes - Emerging Market to US/EU

Rank	Origin	Destination	2011 Tons*
1	China	EU	1,128,332
2	China	US	977,059
3	India	EU	211,805
4	Kenya	EU	155,978
5	Colombia	US	151,434
6	India	US	124,258
7	Brazil	EU	100,691
8	Chile	EU	94,176
9	Peru	US	83,395
10	Chile	US	81,467

Source: Transport Intelligence **Preliminary Estimates*

Figure 9: Air Cargo Top Trade Lanes - Emerging Market-EU/US



Source: Transport Intelligence

Unsurprisingly the larger emerging economies - China, India, Brazil, Russia, Mexico and Turkey - all rank among the top 10 largest import markets for goods shipped from the EU and US. The UAE also imports a significant tonnage of goods from the EU by air transport; taking fourth place in the rankings.

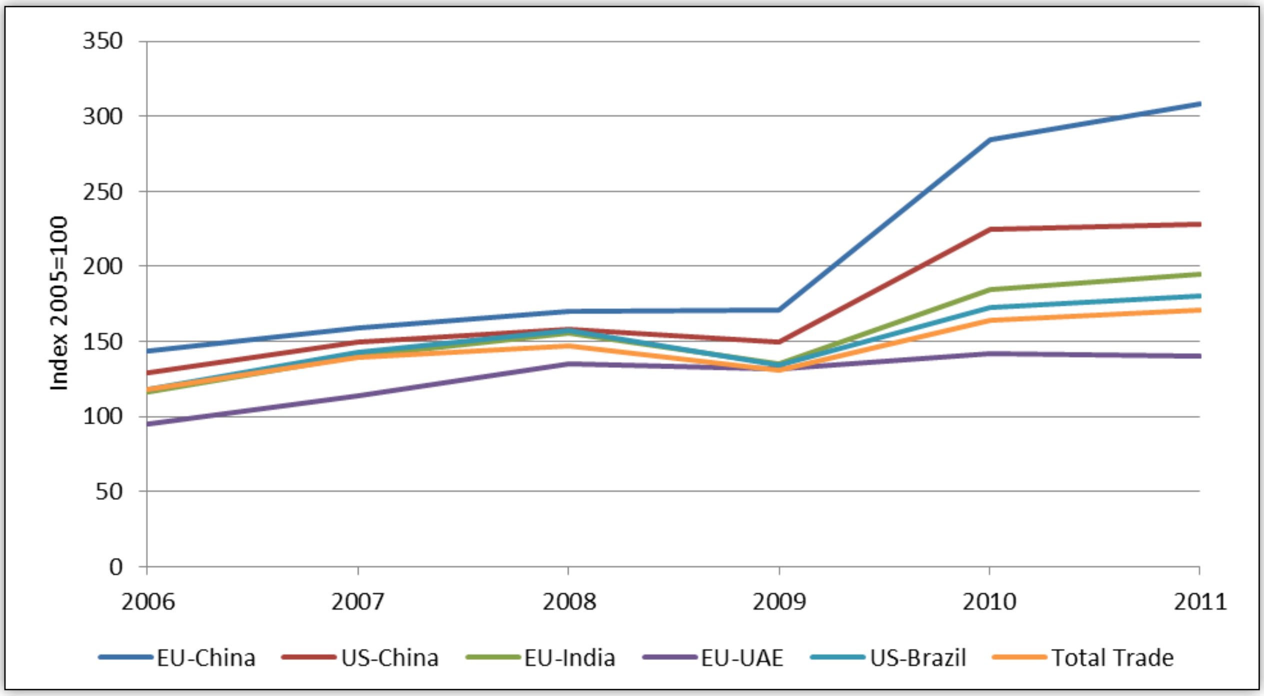
China's imports have seen particularly strong growth with goods shipped by air from the EU up 208% between 2005 and 2010. This compares to an increase of 71% for total emerging market imports from the US and EU.

Table 10: Air Cargo Top 10 Trade Lanes- EU/US to emerging markets

Rank	Origin	Destination	2011 Tons*
1	EU	China	615,837
2	US	China	280,421
3	EU	India	183,773
4	EU	UAE	163,373
5	US	Brazil	141,038
6	EU	Russia	123,083
7	EU	Brazil	121,062
8	EU	South Africa	99,798
9	EU	Turkey	96,572
10	EU	Mexico	95,405

Source: Transport Intelligence **Preliminary Estimates*

Figure 10: Air Cargo Top Trade Lanes- US/EU-Emerging Market



Source: Transport Intelligence

4.2.2 Fastest Growing Trade Lanes

Ethiopia tops the table with exports to the EU growing at a CAGR of 42.1% between 2005 and 2011. The country's exports to the US have also increased significantly over the six year period. Coffee remains Ethiopia's primary export commodity, although recent air cargo improvements have been driven largely by growth of non-coffee products. Despite significant volume increases, the total tonnage of Ethiopia's exports to the EU and the US remain low in comparison to other emerging markets. Exports from Nigeria to the EU also recorded a significant increase between 2005 and 2011 growing at a CAGR of 33%.

Table 11: Air Cargo Fastest Growing Trade Lanes- Emerging Market to EU and US (2005=100)

Rank	Origin	Destination	2007 Index	2008 Index	2009 Index	2010 Index	2011 Index*	CAGR 2005-2011
1	Ethiopia	EU	171	384	636	718	824	42.1%
2	Ethiopia	US	1,310	1,341	916	882	821	42.0%
3	Nigeria	EU	283	149	151	341	561	33.3%
4	Chile	EU	104	161	175	293	492	30.4%
5	Ecuador	EU	138	167	275	300	301	20.1%
6	Kenya	EU	122	142	175	222	234	15.2%
7	Peru	EU	111	120	127	169	194	11.6%
8	Morocco	EU	126	101	154	166	193	11.6%
9	Tunisia	US	134	138	109	184	192	11.5%
10	Mexico	EU	130	136	117	160	172	9.5%
11	Tanzania	US	71	119	109	134	166	8.8%
12	Brazil	EU	109	129	100	128	160	8.1%
13	India	EU	117	116	116	149	152	7.3%
14	Morocco	US	166	148	123	139	151	7.1%
15	Algeria	US	278	374	142	364	150	7.0%
16	China	EU	146	119	107	144	149	6.9%
17	Vietnam	US	132	146	144	190	148	6.7%
18	South Africa	US	124	113	81	108	144	6.3%
19	Bangladesh	EU	121	145	117	163	141	6.0%
20	Tanzania	EU	135	126	104	122	140	5.8%
21	Ukraine	US	208	164	121	132	137	5.4%
22	Tunisia	EU	143	188	101	122	136	5.3%
23	Vietnam	EU	209	117	90	147	135	5.1%
24	India	US	95	93	93	117	128	4.2%
25	Peru	US	118	110	131	138	127	4.0%

Source: Transport Intelligence **Preliminary Estimates*

Paraguay takes top place with imports from the EU by air growing at a CAGR of 27.1% over the six year period. As with trade by sea, growth has been driven from a small base; therefore the total tonnage of goods shipped still remains small in the wider picture. Qatar and Oman have also recorded strong growth since 2005, both ranking in the top five fastest growing trade lanes. US exports to Qatar have almost tripled over the last six years.

Table 12: Air Cargo Fastest Growing Trade Lanes - EU and US to Emerging Market (2005=100)

Rank	Origin	Destination	2007 Index	2008 Index	2009 Index	2010 Index	2011 Index*	CAGR 2005-2011
1	EU	Paraguay	121	305	475	396	422	27.1%
2	US	Qatar	240	293	270	267	393	25.6%
3	US	Ukraine	196	280	340	338	378	24.8%
4	US	Oman	233	370	272	327	324	21.6%
5	EU	China	159	170	171	284	308	20.6%
6	US	Vietnam	200	191	199	278	287	19.2%
7	US	Ethiopia	116	245	243	348	277	18.5%
8	US	Paraguay	192	208	203	248	268	17.8%
9	EU	Morocco	222	369	283	243	255	16.9%
10	EU	Jordan	114	110	103	101	245	16.1%
11	US	UAE	170	206	192	207	233	15.2%
12	EU	Vietnam	176	177	132	183	233	15.1%
13	US	China	150	158	150	225	228	14.7%
14	US	Morocco	177	194	155	151	211	13..2%
15	US	Kazakhstan	209	252	164	257	207	12.9%
16	US	India	160	166	140	183	204	12.6%
17	US	Russia	150	165	121	176	201	12.3%
18	EU	India	140	156	135	185	195	11.8%
19	US	Tanzania	103	135	124	173	194	11.6%
20	EU	Kazakhstan	153	150	377	295	191	11.4%
21	EU	Tanzania	122	226	150	162	191	11.3%
22	EU	Qatar	149	190	171	190	188	11.1%
23	US	Peru	151	164	147	175	185	10.8%
24	EU	Peru	154	134	108	155	184	10.7%
25	US	Saudi Arabia	161	182	178	176	183	10.6%

Source: Transport Intelligence **Preliminary Estimates*

4

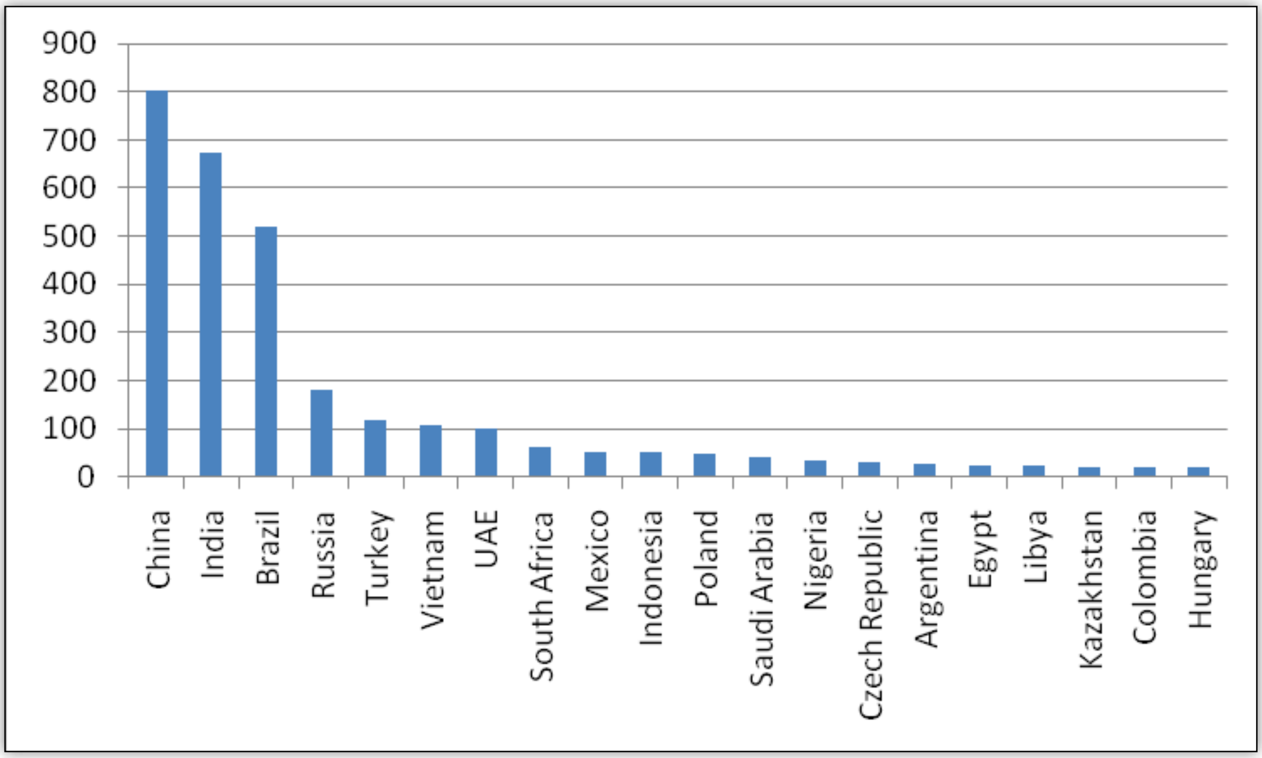
5.0 Emerging Markets Survey

In December 2011, *Transport Intelligence* undertook a major survey of companies operating or investing emerging markets.

550 senior executives took part, making this the biggest survey undertaken in this sector to date.

5.1 Which of the following countries do you believe will emerge as major logistics markets in the next 5 years?

Figure 11: Perceived major logistics markets of the future



Source: Transport Intelligence

Table 13: Perceived major logistics markets for the future in rank order

Ranking	Country	Respondents Rating
1	China	802
2	India	673
3	Brazil	519
4	Russia	182
5	Turkey	118
6	Vietnam	108
7	UAE	101
8	South Africa	63
9	Mexico	53
10	Indonesia	52
11	Poland	47
12	Saudi Arabia	40
13	Nigeria	34
14	Czech Republic	30
15	Argentina	27
16	Egypt	23
17	Libya	22
18	Kazakhstan	21
19	Colombia	20
20	Hungary	20

Source: Transport Intelligence **Preliminary Estimates*

Survey respondents were asked to rank the top three countries that they believed would emerge as major logistics markets in the next five years. A scoring methodology was used to rank the responses, where the top choice received 3 points, the second, 2 points and the third, 1 point. Perhaps unsurprisingly, the so-called 'BRIC' markets received the highest ratings. China was top followed by India and Brazil. There was then a significant gap to Russia.

Apart from Russia, the only other European country to make the top 10 was Turkey. This indicates the confidence which many in the industry have with regards to its prospects as a near-sourcing location for the European Union as well as an important consumer market in its own right.

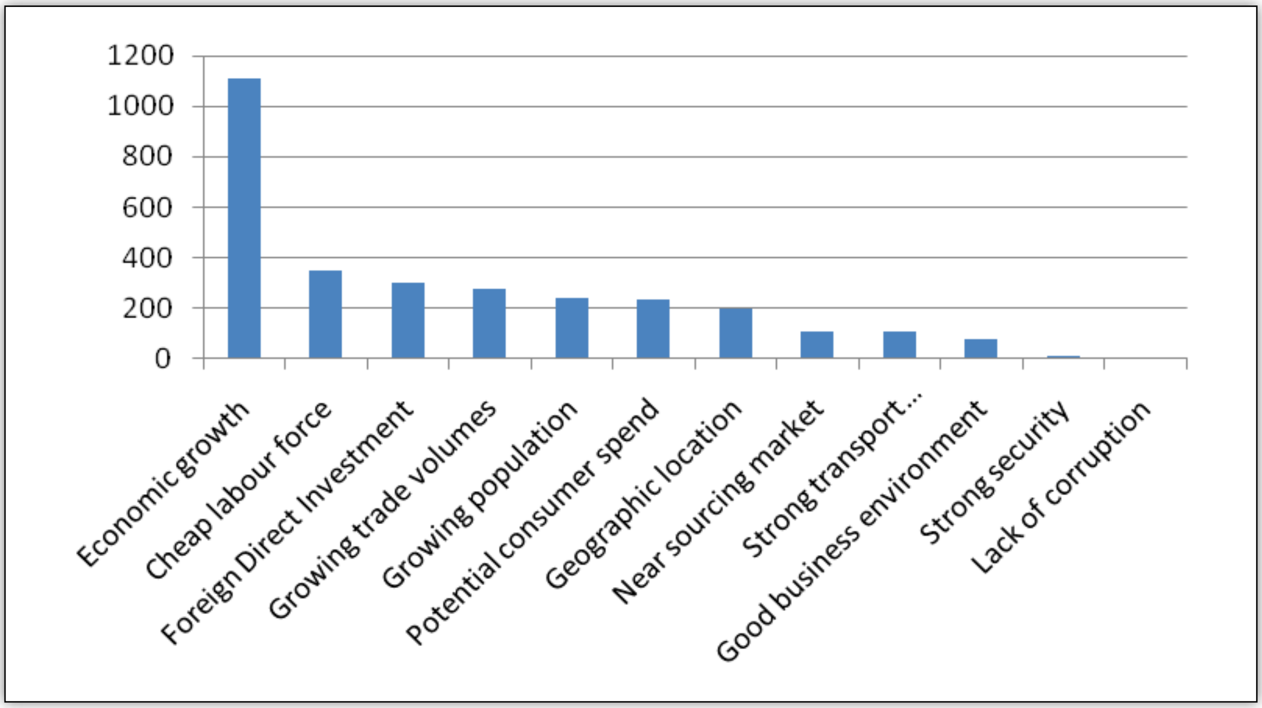
The smallest market in the top 10 was Vietnam. Its development has been constrained by a weak transport infrastructure although investment is addressing this problem. However it is obvious from the results of the survey that respondents consider Vietnam to have considerable potential, aided no doubt by inflationary pressures in neighbouring China.

After the UAE in seventh position, which has invested heavily in its ports, airports, road and rail infrastructure, there is another drop to South Africa, perhaps a surprise entrant in the top 10 especially considering that it appears above two larger markets Mexico (9th) and Indonesia (10th). This market could well be the one to watch in the coming years.

One point of interest was that two countries involved in the 'Arab Spring' made it into the top 20: Egypt and Libya (16th and 17th respectively). It seems that many consider these nations 'open for business' as regards logistics services.

5.2 Please rank, in order of importance, the key reasons why you think the main market in question 1 above will become an important emerging market.

Figure 12: Factors behind the potential emergence of markets



Source: Transport Intelligence

Table 14: Factors behind the potential emergence of markets in rank order

Economic growth	1,113
Cheap labour force	351
Foreign Direct Investment	301
Growing trade volumes	275
Growing population	238
Potential consumer spend	236
Geographic location	196
Near sourcing market	108
Strong transport infrastructure	108
Good business environment	79
Strong security	8
Lack of corruption	5

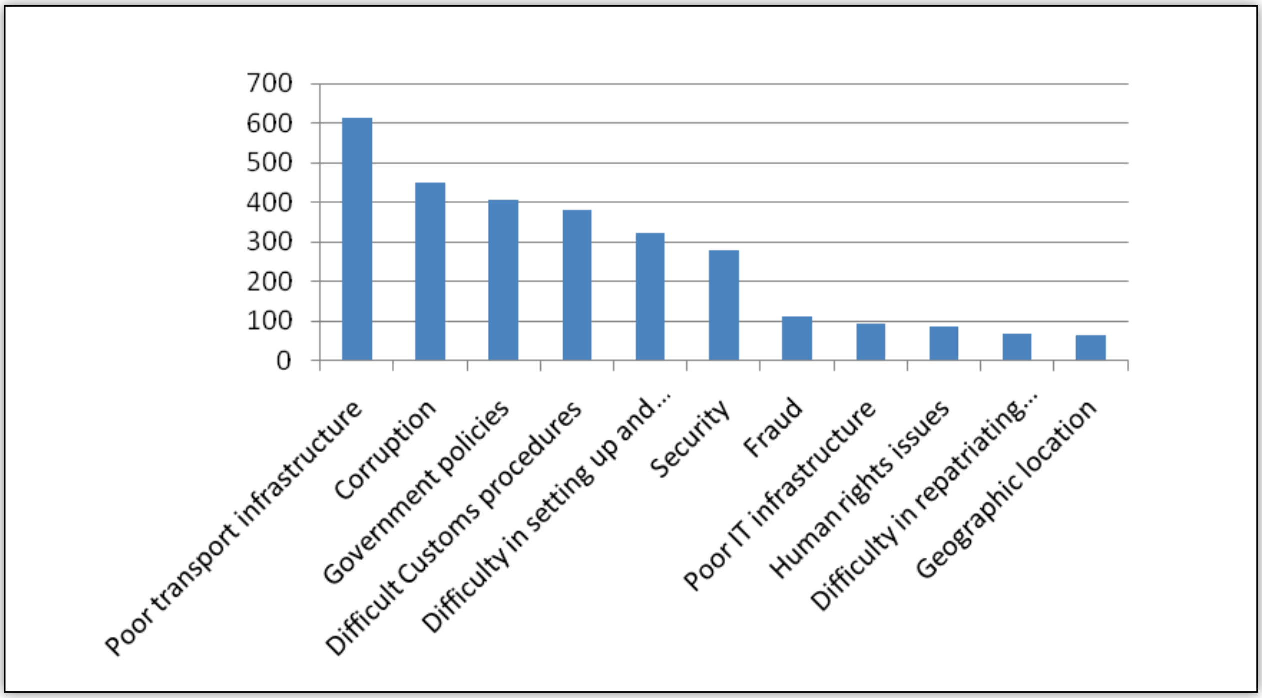
Source: Transport Intelligence

The respondents were asked to provide more information about why they thought the main emerging market they chose would become a major logistics market. The most popular reason by far was 'Economic Growth,' fully three times more popular than the next option 'Cheap Labour Force'. This was followed by 'Foreign Direct Investment' and 'Growing trade volumes.'

It is interesting to note that 'Strong transport infrastructure' was not considered to be too important a reason behind the development of a market.

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

Figure 13: Factors that could suppress market growth



Source: Transport Intelligence

Table 15: Factors that could suppress market growth in rank order

Poor transport infrastructure	614
Corruption	450
Government policies	405
Difficult Customs procedures	380
Difficulty in setting up and doing business	322
Security	281
Fraud	113
Poor IT infrastructure	94
Human rights issues	87
Difficulty in repatriating profits	70
Geographic location	65

Source: Transport Intelligence

When looking at the difficulties in doing business in an emerging market, the main problem faced, according to the survey, was a country's poor transport infrastructure. In some respects this might be seen to contradict the findings of the previous question. However it seems that respondents believe that the main emerging markets will develop despite their weak infrastructure due to more important macro-economic factors (GDP growth, cheap labour, FDI etc). On an operational level, though, infrastructure is the major factor inhibiting growth.

Corruption is the second highest scoring factor as far as conducting business is concerned. Corruption can take many different forms whether it involves facilitation payments at a local or national level (for example in ports or unofficial road tolls) or protection money to local police. In many cases companies are not willing to discuss this issue as it may compromise their ability to do business – however the survey shows it is definitely a major problem which the industry needs to address.

The next three issues which the survey highlights are related to dealings with government. Government policies are seen as the third most important challenge for doing business. This can include elements of protectionism such as rules on foreign ownership or licensing, for example. This is followed by 'Difficult Customs procedures' and 'Difficulty in setting up and doing business,' both suggesting overly bureaucratic systems. This is something that the countries at the bottom of the Emerging Market ranking should be mindful to address if they want to benefit from further investment in their markets (see next question).

When compared with last year's survey, transport infrastructure appears once again at the top of the rankings as the main problem of doing business in emerging markets. Corruption has moved slightly up the agenda, from third last year to second this year, whilst government policies have also become more of a concern. Security seems significantly less of an issue in this year's survey.

Table 16: Changing levels of significance of factors

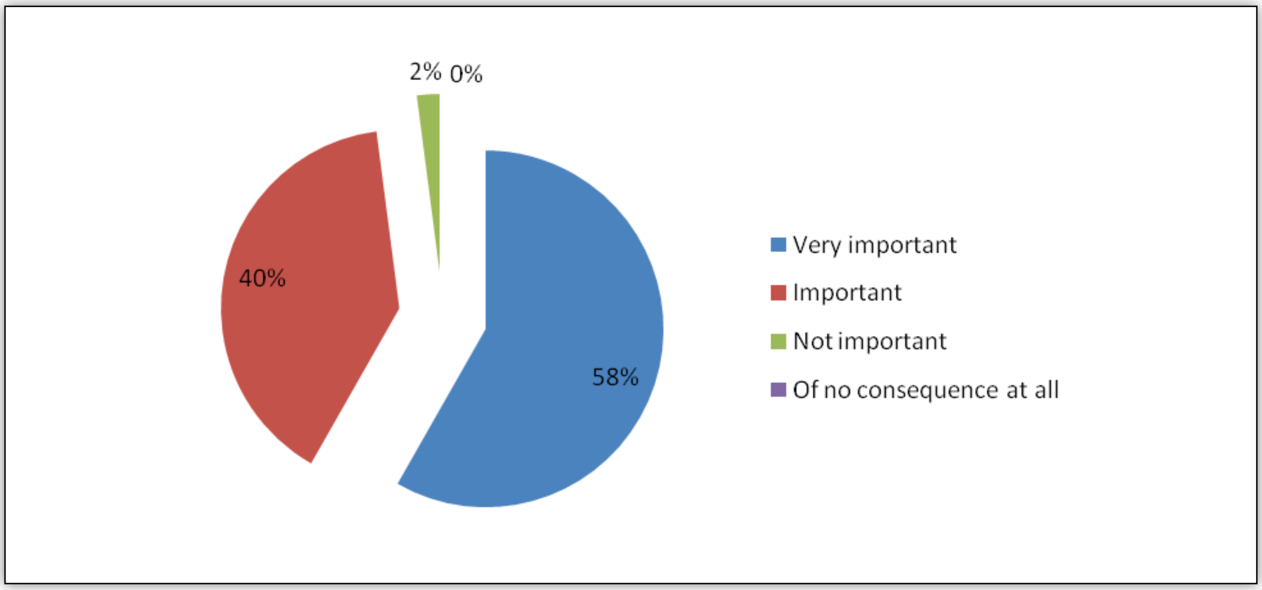
	2012	2011	
Poor transport infrastructure	1	1	=
Corruption	2	3	↑
Government policies	3	5	↑
Difficult Customs procedures	4	7	↑
Difficulty in setting up and doing business	5	6	↑
Security	6	2	↓
Human rights issues	7	8	↓
Geographic location	8	4	↓

Source: Transport Intelligence

Looking at the issue of corruption in a little more detail, respondents were asked to rate how important corruption was when doing business in emerging markets.

Almost everyone thought it was either 'important' or 'very important', with the majority suggesting it was 'very important.' This would suggest that 'corruption' imposes significant costs on supply chains in emerging markets, and should be at the top of business and government leaders' priority list when it comes to their logistics industry.

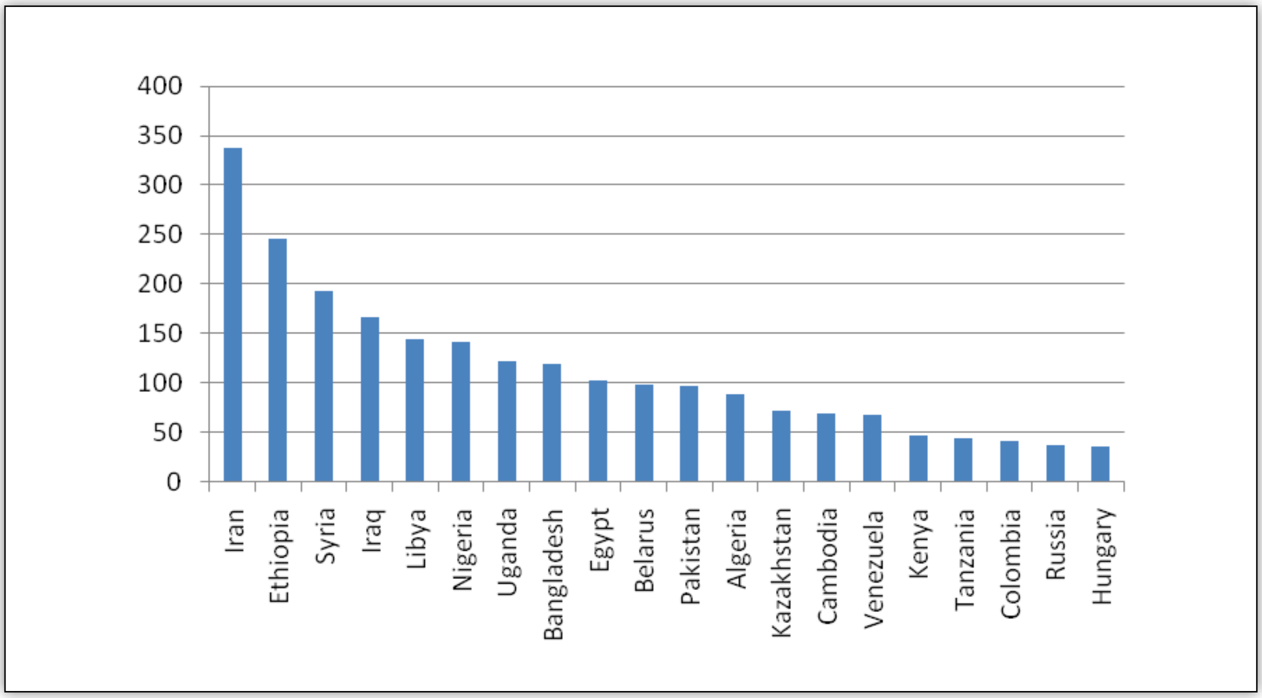
Figure 14: The role of corruption in emerging markets



Source: Transport Intelligence

5.4 Which of the following countries do you believe have the LEAST potential as emerging logistics markets

Figure 15: Least attractive markets



Source: Transport Intelligence

Table 17: Least attractive markets in rank order

Ranking	Country	Respondents
1	Iran	337
2	Ethiopia	246
3	Syria	193
4	Iraq	167
5	Libya	144
6	Nigeria	141
7	Uganda	122
8	Bangladesh	119
9	Egypt	102
10	Belarus	98
11	Pakistan	97
12	Algeria	88
13	Kazakhstan	72
14	Cambodia	69
15	Venezuela	67
16	Kenya	46
17	Tanzania	44
18	Colombia	41
19	Russia	37
20	Hungary	36

Source: Transport Intelligence **Preliminary Estimates*

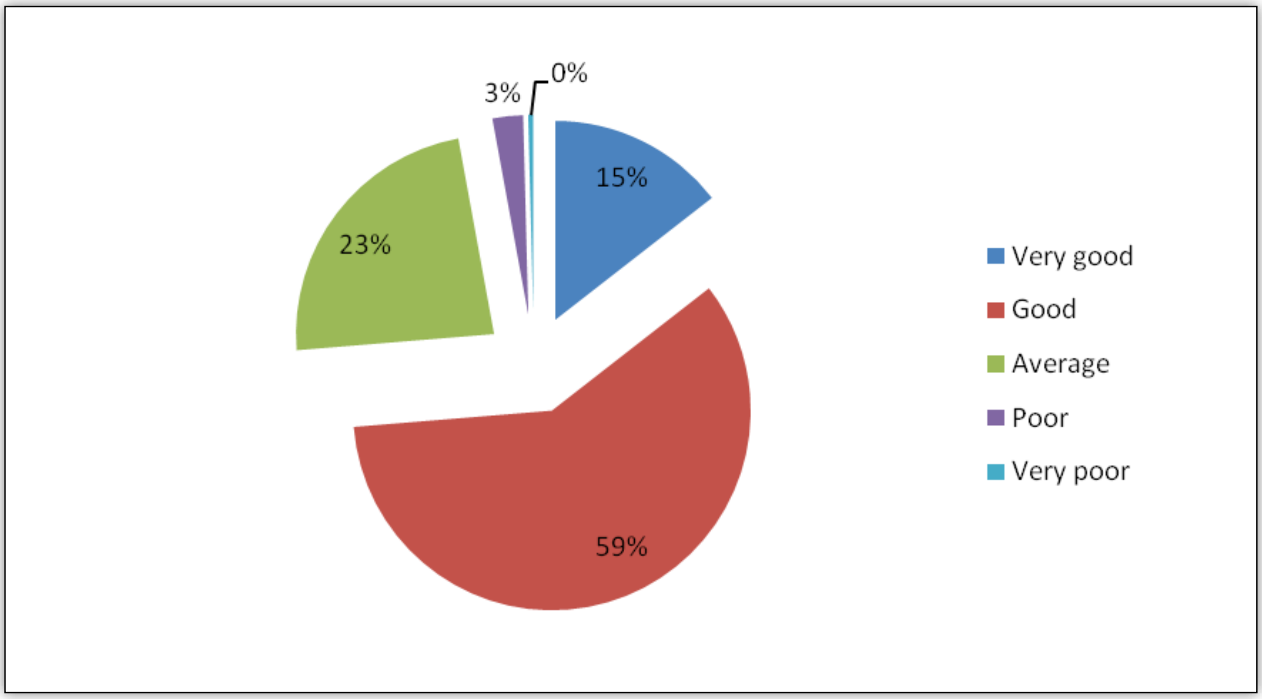
The results of the survey suggest that Iran has the least potential for future growth. This is hardly surprising given the tensions which exist currently and the increasing level of economic sanctions being employed by the EU and US.

The second least promising market, according to the survey, is Ethiopia. Being a neighbour of Somalia, with all its problems with piracy, will have been a major factor in its ranking. (As a failed state Somalia was not included in the survey). However this perception is at odds with Ethiopia's ranking in the Emerging Market Index which provides a rosier assessment of its potential.

The other countries to make up the top five, Syria, Iraq and Libya, also have their well-publicised problems giving good reason for their ranking. However it is slightly surprising to find Nigeria at number 6. It might have been surmised that this oil rich country with an increasingly rich middle class would have been judged as a high potential market. However this position is corroborated by its ranking in the Emerging Market Index. Security risks, corruption and poverty have made it an undesirable market for many.

5.5 How do you rate the prospects for emerging markets in 2012?

Figure 16: Prospects for emerging markets in 2012



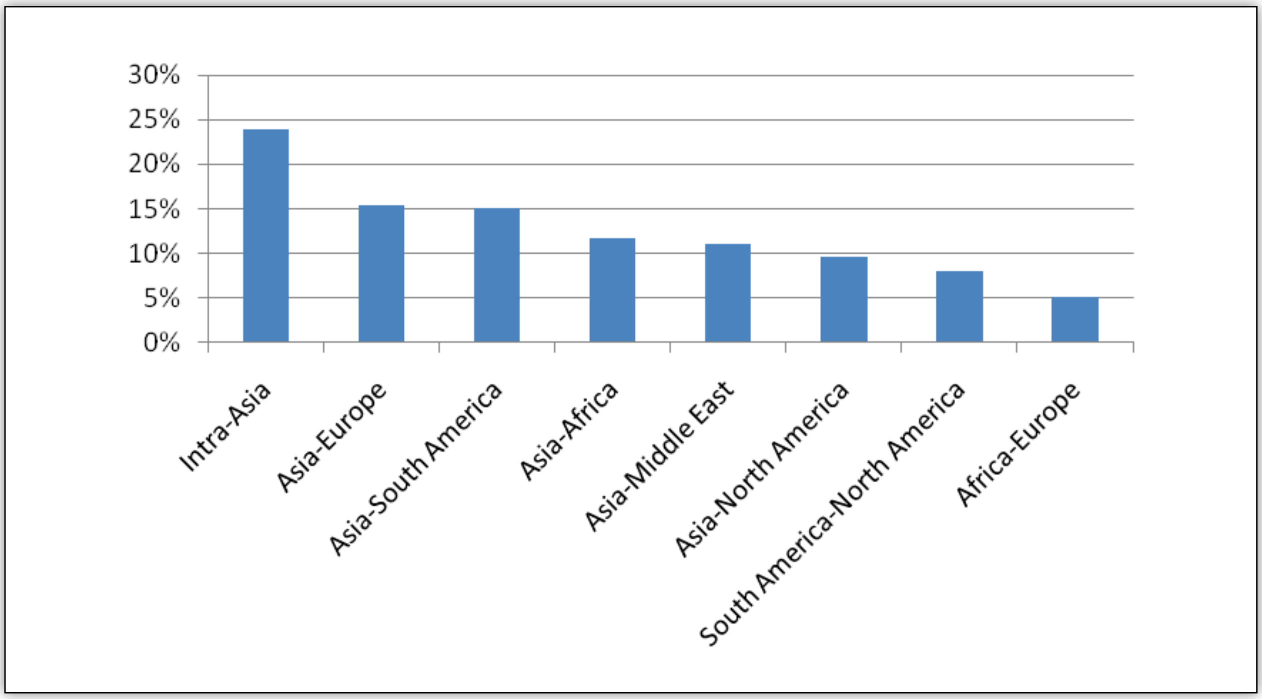
Source: Transport Intelligence

The overwhelming majority of respondents (almost three quarters) judged that the prospects for emerging markets in 2012 were either 'good' or 'very good'. This compared with just under a quarter (23%) indicating that they thought prospects were 'average' and a tiny proportion who through they were 'poor' or 'very poor'.

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

About a quarter of respondents stated that the 'Intra-Asia' trade lane had the greatest potential for future growth. This, rather surprisingly given the economic situation, was followed by Asia-Europe. This perhaps indicates that within this broad categorisation, there are opportunities on some of the more niche routes. It may also suggest that markets such as Indonesia and Vietnam will grow in importance to European shippers.

Figure 17: Prospects of emerging markets in 2012 by Region



Source: Transport Intelligence

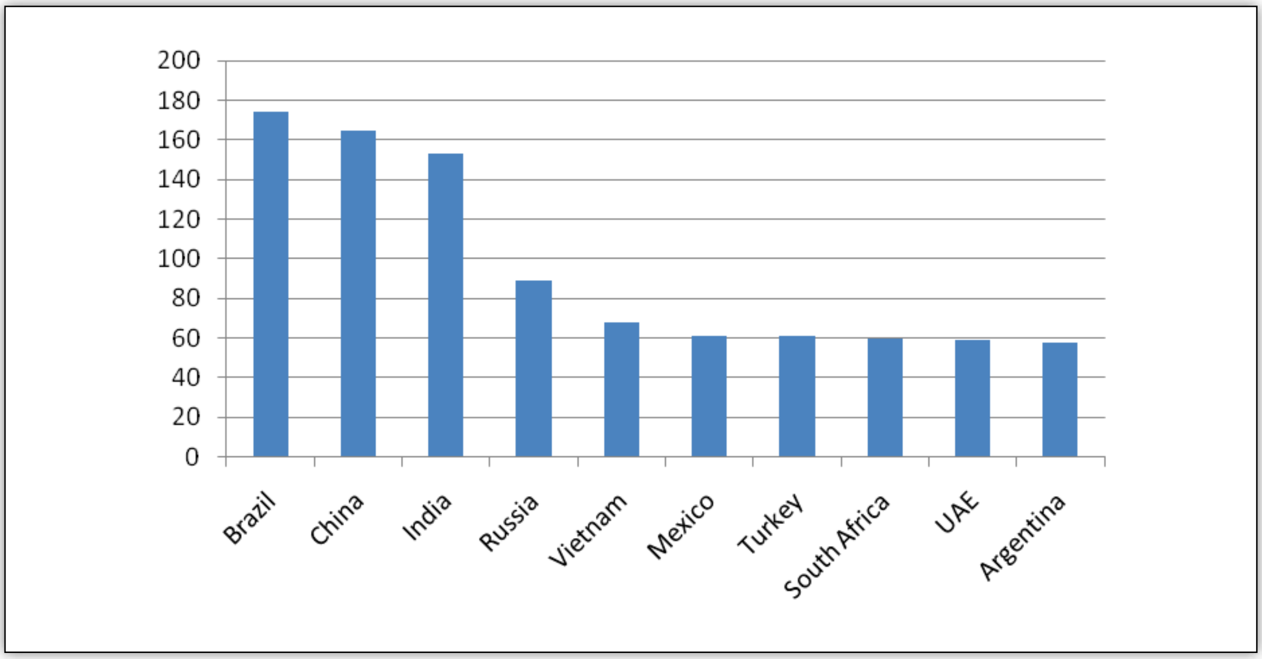
Other routes which the survey highlighted were Asia-South America, Asia-Africa and Asia-Middle East. These routes are being driven partly by the expansion of Chinese investment in these markets.

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

Examining in more detail the markets in which companies were intending to invest in the next five years, Brazil topped the rankings. It was followed by China and India. This of course demonstrates the importance of Brazil as an emerging market buoyed by the global demand for its natural resources. It also shows that in terms of investment, companies' focus is shifting away slightly from China and India. Russia, the fourth 'BRIC' market, makes up the top four, followed by Vietnam, Mexico and Turkey, all high profile emerging markets.

Of particular note is the prominence of two of the final three markets making up the top 10: South Africa and Argentina. Both these lesser markets could be exciting prospects for logistics investment.

Figure 18: Markets for potential investment in the next five years



Source: Transport Intelligence

Comparing this and last year's survey, there are a number of points of note amongst the highest climbers and fallers in the rankings of markets for future expansion. Morocco and Algeria, two North African markets exposed to the Arab Spring, did very well showing that logistics companies believe there are good opportunities available. Venezuela also did well, perhaps anticipating the exit of its present president, and as a result of its rebounding economy, as did fellow South American economy Chile.

Slovakia dropped significantly down the rankings in terms of a market for future expansion, possibly because in such a small market logistics companies have expanded sufficiently to exploit its full potential. Tanzania and Pakistan have also dropped significantly.

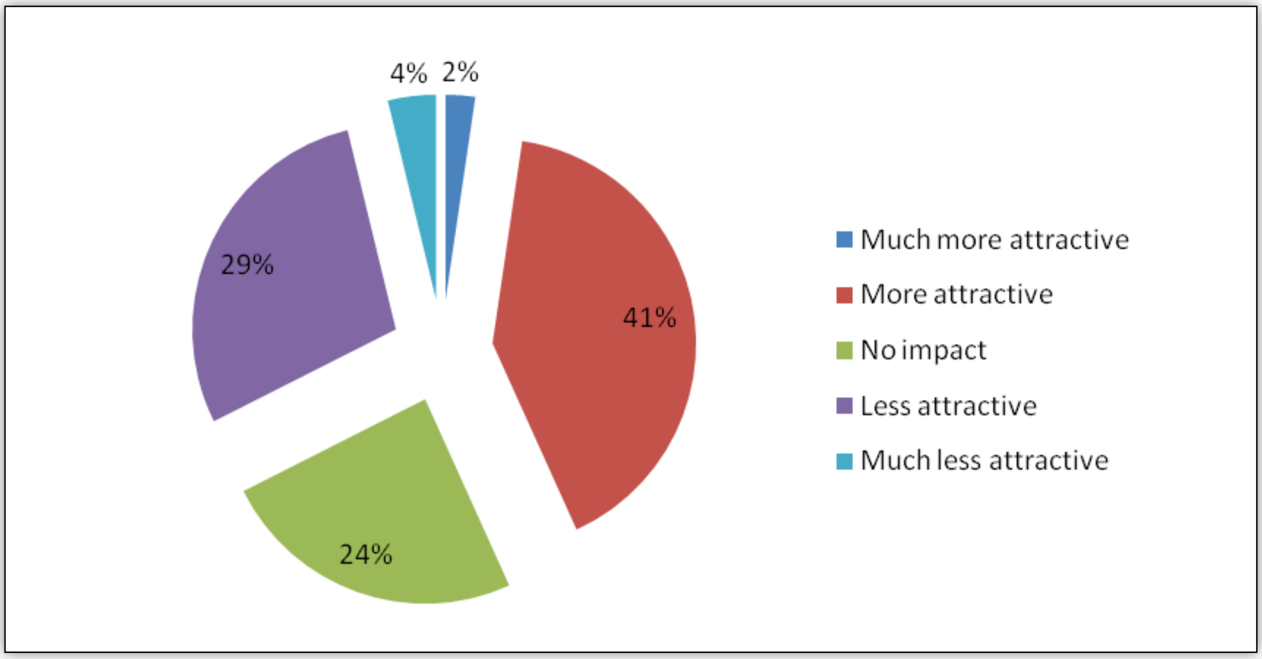
Table 18: Most significant rise and falls in Index ranking position

Highest climbers	Rise	2012 rank
Morocco	+15	20
Venezuela	+12	27
Algeria	+9	22
Chile	+9	11
Nigeria	+8	26
Highest fallers	**Fall**	**2012 rank**
Slovakia	-26	45
Tanzania	-19	46
Pakistan	-15	33
Cambodia	-14	38
Philippines	-12	28

Source: Transport Intelligence

5.8 Have the 'Arab Spring' revolutions in North Africa/Middle East made the region more or less attractive for investment in the medium to long term?

Figure 19: Attractiveness of the North Africa/Middle East region



Source: Transport Intelligence

With the implications of the Arab Spring still unfolding throughout the Middle East and North Africa, a further question was asked probing whether the political situation in the region was seen as an opportunity or threat to logistics companies in the medium to long term.

On balance respondents believed that the Arab Spring had made the region more attractive for investment. 43% thought that it made the region 'much more' or 'more' attractive, whilst 32% thought it made the region 'much less' or 'less attractive'.

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