



## BRIC economies: Increasing trade competitiveness to expedite economic recovery

### Macro Economic Overview: BRIC

- The amount of traded goods has increased seven-fold in the last 50 years with a shift towards higher value-added goods. To move these goods, air and sea are the most important forms of transport. In recent years, air cargo has grown twice as fast as sea with air seeing constant reductions in costs.
- According to the International Monetary Fund (IMF), the emerging economies are predicted to grow at a rate of 3.25 percent while the developed world is expected to contract by 2 percent in 2009 as a result from the current economic climate. This indicates that the current downturn can provide the opportunity for emerging economies to manage the situation effectively.
- Despite the downturn, the increase in Foreign Direct Investments (FDI) over 2007 to 2008 in these economies infer potential development in the future:
  - **Brazil** FDI increased from US\$34.6 billion in 2007 to \$45.1 billion in 2008;
  - **China**, FDI rose from US\$83 billion to US\$93 billion in 2008;
  - **India**, about US\$32.4 billion of foreign investment has been poured into the country in 2008, and the increment is about 40 per cent from US\$23.3 billion in 2007.
  - **Russia** stayed strong, posting US\$27.03 billion in FDI for 2008<sup>1</sup>
- This has been further substantiated by initiatives to focus on sectors which are high value exports:

**China** has emerged as the destination of choice for final assembly and processing of goods.<sup>2</sup> The government has also encouraged development in sectors like health care, high technology through tax incentives and new regulations<sup>3</sup>.

**Russia** has seen tremendous growth in the e-commerce, bio technology and telecommunications sectors<sup>4</sup>

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<sup>1</sup> World Investment Report 2008

<sup>2</sup> EIU: 2007

From 2008 to 2009, **India** has attracted the highest amount of equity inflows in the service sectors (financial & non-financials), followed by computer software & hardware and telecommunications (radio paging, cellular mobile, basic telephone services).<sup>5</sup>

In **Brazil**, oil and biofuel refineries, metallurgy, foods and beverages, metal, mineral and chemical products together attracted three times more FDI in 2007 than in 2006, and accounted for more than 90 percent of total inflows into manufacturing. The automotive industry remains an important FDI recipient in this country, Brazil being the leader in the development of “flex fuel” engines.<sup>6</sup>

- Development of these sectors will play a role in generating post crisis economic growth for these economies, and the express industry is a critical link in this chain to support this growth. As these economies increase in their production of high value goods, transportation of these goods via air will become increasingly important.

**Key insights based on London School of Economics Study: *International trade, express logistics and globalization: part and parcel of the solution to current economic problems***

**How countries can stay competitive in international trade**

- The LSE study reviews what BRIC economies can do to be best placed in the economic upturn. The report looks at two overarching factors: the best practices of leading countries for trade, and what BRIC markets can do to improve their international trade success.
- The study has explained that international trade is dependent on good logistics, which is characterized by costs and quality. LSE has highlighted that transport costs is one of the biggest barrier to trade, which can be achieved both by governments in reducing obstacles to trade, and by private sector logistics firms becoming more efficient. The study focuses on two important means of transport costs – by air and by sea. Quality in good logistics, on the other hand, is measured in terms of importers and exporters’ reports on the duration to

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<sup>3</sup> US Business Council

<sup>4</sup> German Trade & Invest

<sup>5</sup> Department of Industrial Policy & Promotion Ministry of Commerce and Industry

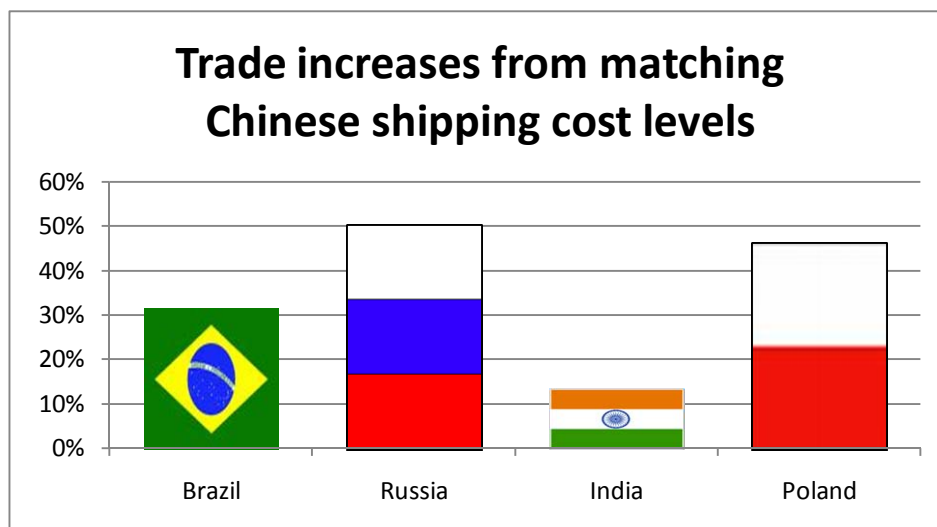
<sup>6</sup> World Investment Report 2008

clear customs, goods held up for physical inspection, lead times necessary to import or export goods, and the ability to request a review if goods are delayed.

- The report findings are based on a multivariate regression analysis model which predicts which countries are successful in international trade and which are not. Scores are based on the key determinants of international trade flows achieved by each country, such as proximity between countries, income, and other standard economic variables, differences in logistics quality in different countries that affect the extent to which these countries trade with other nations.
- The regression results have inferred that shipping costs and the availability of review procedures matter in effecting the level of trade performance, while the other factors have either very small or statistically insignificant effects.

#### Implications of shipping costs on trade

- Based on the multivariate regression analysis, the findings infer that China is the strongest performer through its competitive shipping costs, compared to other emerging markets (Brazil, Russia and India).

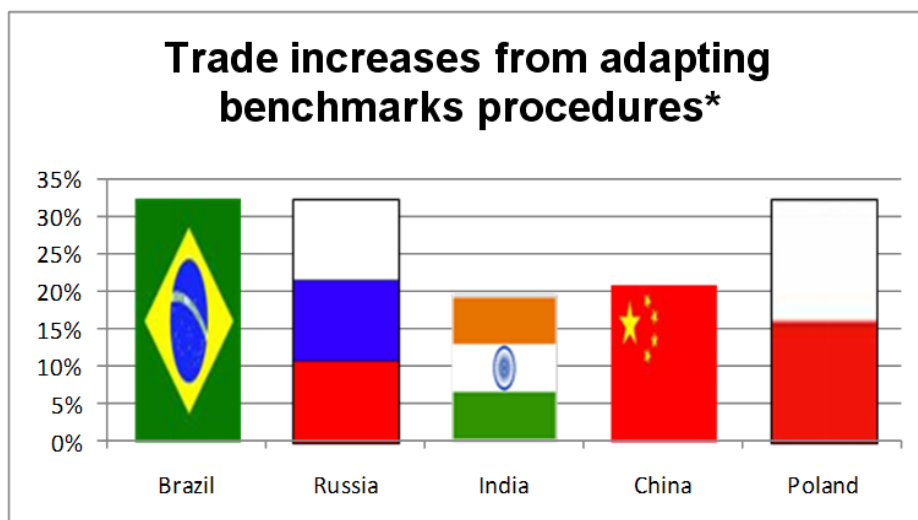


- India has shipping costs that are more than 50 percent higher than those of China, while Russian shipping costs are over four times as high as China's.
- These cost differences matter for trade: higher shipping costs make a country less attractive as a base.
- Through the regression analysis, the findings show that were India able to reduce its shipping costs to match Chinese levels, trade would increase by 10 percent. Were Brazil to match China's shipping costs, its trade volumes would increase by around 30 percent.. And,

if Poland and Russia matched Chinese shipping costs, their trade will increase by 45 percent, and just over 50 percent respectively.

### Implications of logistic review procedures on trade

- Proper review procedures are an important measurable aspect of quality. They are the processes by which exporters and importers have the right to contest the enforcement of goods being held or delayed at customs. In theory, most countries have such procedures but to be effective they need to be quick, cheap and impartial and countries have to ensure that the discipline of such reviews to be made available for those whose job is to implement and enforce current trade rules.
- India and China are already seen by some importers and exporters as offering review procedures but they could still benefit from increased trade levels of around 20 percent were they to make such reviews available.

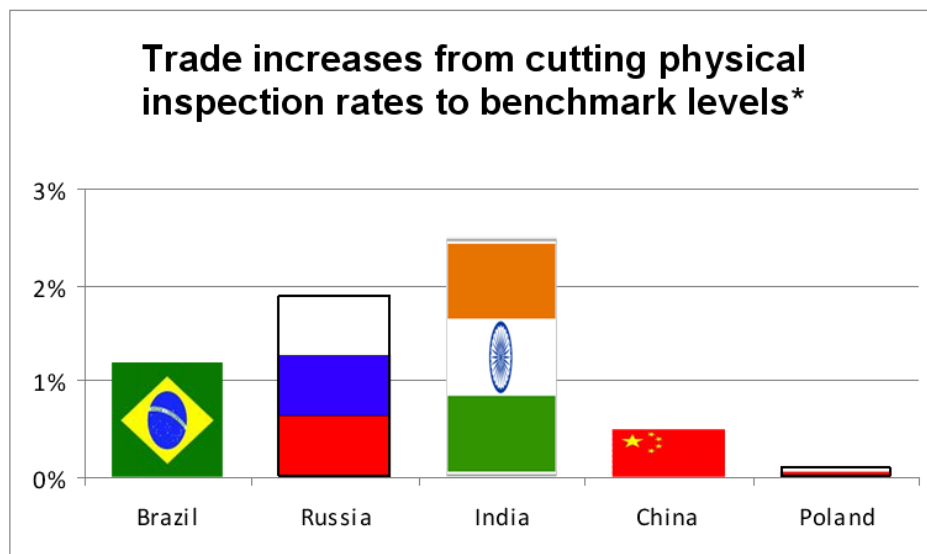


\* Germany is used as a representative developed nation in the study as it is a good example of a country with a reasonably high performing logistics sector.

- In the case of Brazil, Russia and Poland, gains from having such low cost independent reviews would increase trade level performance by 30 percent.

### Implications of physical inspection on trade

- German authorities inspect only 2 percent of cargoes, and Polish authorities only 3 percent. These are countries that are confident that they have other ways of detecting the entry of illicit cargo.

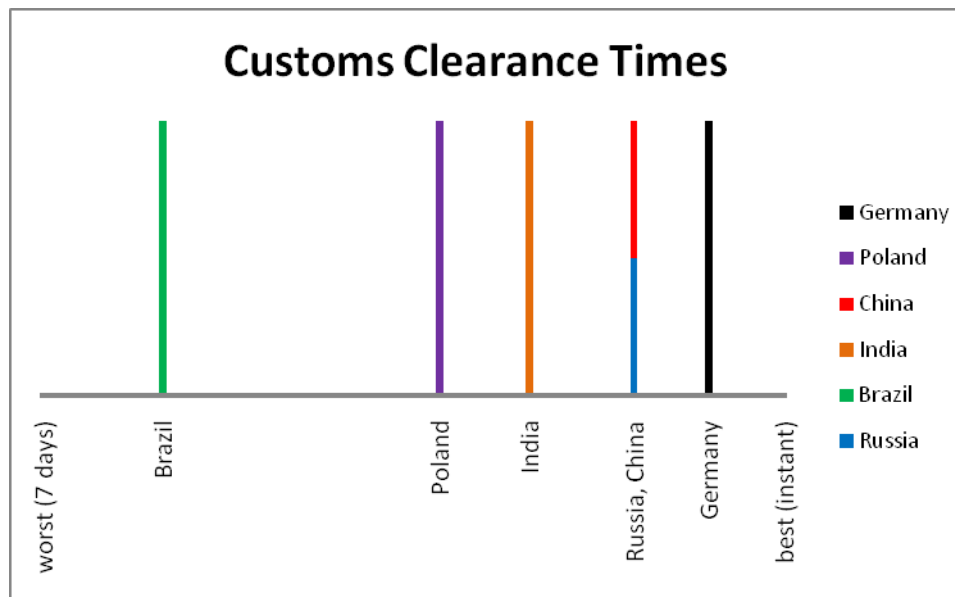


\* Germany is used as a representative developed nation in the study as it is a good example of a country with a reasonably high performing logistics sector.

- China leads the way among emerging economies, posting a significantly better performance in customs processes. Cargo is almost four times more likely to be inspected by Indian than Chinese authorities and in total India authorities inspect 25 percent of shipments (1 in four cargo shipments are stopped and physically inspected).
- This level of uncertainty poses a challenge for traders who intend to import or export time-sensitive goods, including high value-added "must have" electronics, and makes Russia and India less attractive place to produce such goods.
- Yet the effect of these inspections is very limited: reducing the level of inspection by 90 percent, to match developed country standards, would raise India's trade levels by less than 3 percent. The small effect on trade tells us that these inspections, although unwelcome, do not inconvenience trade sufficiently to act as an important obstacle to those who wish to do business in that country.

#### **Implications of customs procedures on trade**

- Customs processes generally work most efficiently in developed economies. Germany, performs most strongly with an average time to clear customs of less than one day.



- China and Russia stand out as having effective customs operations, as compared with Brazil and Poland.

### Conclusion

- The BRIC countries are within close proximity to already developed markets and have a coastline which can facilitate both air and sea cargo.
- BRIC can leverage the best practices of trade, and create conditions that will make their nations attractive for high value added international business, and to harness economic growth by increasing their share of international trade.

- End -

### Notes to Editors:

The report, 'Trade, Express Logistics and Globalization: Part and Parcel of the Solution to Current Economic Problems' was produced by the London School of Economics and involved an in-depth analysis of Brazil, Russia, India and China as well as the logistics sector and prevailing economic conditions.

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