Global overview on Logistics, Trade & Economy

— By Capt. Bharat Sabharwal, CEO, BSL Freight Solutions Pvt. Ltd.

Off late great age of globalization was unleashed by new technology—fast and vast ships, lightning communications—and new rules that opened borders to rising flows of goods, money and people. It was a long and prosperous era, but it sowed the seeds of its own destruction: around the world many millions of people gained, and rising inequality stirred fierce pockets of resentment among those left behind. When the great shock came, bringing hard times, a new breed of populists arose, blaming open borders, free trade, global banks and immigrants. As the populists gained support, defenders of an open world wavered and globalization stalled. The new age of deglobalization hit full stride.

Well this story could be drawn from headlines on the global financial crisis of 2008 and its aftermath, but it is drawn from historical accounts of a previous period of deglobalization, which began in 1914 with the onset of World War I. The parallels between the eras before 2008 and 1914 are striking. The transport revolution triggered by the advent of 40,000 ton container ships in the 1970s was foreshadowed by the impact of steamships before World War I, and the world-shrinking impact of the internet mirrored that spawned by the “Victorian internet,” the telegraph. By many measures, the world was as or more integrated on the eve of World War I than it was before the global financial crisis of 2008.

Today, this is still a deeply interconnected world, but the momentum has turned and its ties are starting to fray, as they did in the post-World War I era. Global trade is shrinking as a share of the global economy for the first time in a generation. Global banks have pulled back to within their home borders. Economic migration from poor to rich countries is falling. The rising flows of goods, money and people that define “globalization” are turning. 2 We don’t know when this new age of deglobalization will end, but the lesson of the post-World War I era is that it could take a painfully long time.

After hitting bottom, it would then take another three to five decades for these flows to regain their pre-World War I levels. Trade fell from 30 percent of global GDP in 1913 to just 10 percent two decades later, and did not recover to 30 percent until 1973. Immigration flows measured by the yearly total of new permanent residents in the United States also peaked in 1913, at 1.2 million, then fell to a low of 23,000 in 1933, and did not reach 1.2 million again until 2006. The global mobility of capital peaked in 1914, then all but stopped during the war. It was six decades before capital mobility started to climb sharply again in the late 70s. And it was not until the late 1990s that it regained its pre-World War I levels.

Globalization Advances and Retreats in Long Waves

Even so many years after 2008 the world economy isn’t out of the slowdown.

There are some reasons that are structural and underappreciated. The most important tool is about population, which is not well-understood. There are two drivers of economic growth. One is productivity and the second is increase in labour force. Historically, they have contributed in equal measure to economic growth. What I find is that there is enough discussion about productivity but not enough on [the fact] that the world’s population growth rate has slowed down dramatically. Even in India, the fertility rate has dropped from six and a half in the 1960s to two and a half now. That’s a dramatic drop. People aren’t realising that you can’t get the economic growth rates of the 2000s. Demographics is just a very major factor behind this big slowdown.

I reserve a contrarian view on automation. The fear of a robotic future is built on lack of imagination. If you look where robots are really growing, it is in countries which need them badly because the population is shrinking. Take the case of Japan: the growth rate of the country in the last few years is 0.5 to 1 per cent. Yet it is facing acute labour shortages. That tells you how severe the demographic headwinds in Japan are. They [The Japanese] are also very insular, not very welcoming towards immigrants, so robots are a natural solution for them.

Germany, Japan and South Korea show the maximum increase in robots. All these countries have the maximum demographic problems. Even last year one of the reasons Germany was welcoming immigrants is that it was facing a demographic shortage. I think the...
demographic problem is underappreciated. Robots are coming just in time to supplement. They are not coming to take jobs away.

**Brexit, a failure of the European experiment as well as downside of globalisation**

Popularity levels of the leaders in the 20 largest countries, a composite approval rating. These are at all-time lows. Dissatisfaction with the establishment is everywhere. It is not just a problem with Britain. Look at Latin America where the opposite is happening. All the incumbents there are of the Left. All those coming to power are the market-friendly, pro-business people.

My point is that there is anti-incumbency. It is not ideological. Donald Trump is not a classic right candidate. It’s not like his economic policies are more Left than Right. They are all over the map. Europe too Brexit was more about insecurities of people than ideology.

There is a global anti-incumbency. There’s a contagion effect. Usually the contagion effect is regional in nature. The Arab Spring. We’ve seen it in Latin America. Typically the best time for a country is in the first two years of a new leader. That’s the general rule. No rule is 100 per cent true. There are always exceptions. Every time we talk about how democracies are better than authoritarian regimes, people say, oh, but Lee Kuan Yew did so well in Singapore. Every leader likes to believe he is the exception but the probability is against you.

**INDIA**

India is quite stable now. Debt and GDP are growing together. India’s debt is not going up much, even public debt has stabilised. In the last 10-15 years, private sector companies took a lot of debt, but in the last five years or so the debt profile seems to have stabilised. On the next engine, first there has to be realisation that the working age population is shrinking. That’s the general rule. No rule is 100 per cent true. There are always exceptions. Every time we talk about how democracies are better than authoritarian regimes, people say, oh, but Lee Kuan Yew did so well in Singapore. Every leader likes to believe he is the exception but the probability is against you.

**EURO-AREA: Continued modest growth in 2016**

- Despite increased political risks, the short-term economic environment in Europe is relatively favourable compared to other mature economies.
- Domestic demand and improving labour markets continue to drive the current moderate recovery, but the effects of pent-up demand and lower oil prices are waning. Investment and productivity are projected to somewhat improve, paving the way for some growth acceleration towards the end of the decade.

**ASIA-PACIFIC: Growth is unlikely to improve further**

- Growth rates for China, India and Southeast Asia are unlikely to see significant improvement in 2016 compared to last year.
- Growth in China in 2016 is expected to stay in the same range as in 2015 at 6.3 per cent
- India looks to have overtaken China role as the growth champion of the region. However, we do not expect any improvement in India’s growth performance in 2016 relative to 2015.

**LATIN AMERICA: Losing the race?**

- Rapid falls in oil and commodity prices have negatively impacted Latin American economies, and exacerbated the ongoing troubles in the biggest economy in the region, Brazil. To help lift economic potential and drive productivity growth, more private sector and foreign investment is needed as well as integration of the informal sector into large and modern business practices.
- Latin America and the Caribbean is expected to face another year of weak economic performance due to domestic challenges among the region’s largest
economies, depressed commodity prices, and tighter regional monetary conditions. Output is expected to shrink another 1.3 percent this year, after declining 0.7 percent in 2015, marking a second consecutive year of recession for the first time in more than 30 years. Brazil and the República Bolivariana de Venezuela are in deep recessions, while Argentina is expected to see a modest contraction as it embarks on a period of macroeconomic policy adjustments toward more sustainable growth. In contrast, Mexico, Central America, and the Caribbean are expected to expand at moderate rates in 2016, boosted by robust growth in exports and tourism. The region as a whole is projected to return to growth in 2017-18, as domestic constraints gradually loosen and net exports continue picking up. Significant downside risks persist, as the South American economy has yet to bottom out and commodity prices could resume their declines.

Regaining fiscal space, amid the economic slowdown and low commodity revenues, and enhancing productivity growth are major policy challenges for the region.

SUB-SAHARAN AFRICA: Positive, but uncertain

• The prolonged decline in commodity prices, as well as weak growth in Nigeria and South Africa, will cause overall growth for the region in 2016 to come in at 1.8 percent, the region’s slowest growth performance in two decades.

• The region still has a lot of potential for economic expansion in the medium to long run, mainly due to its large demographic dividend and ample room for catch-up. However, several political and institutional constraints offer significant uncertainty.

Further, the emerging global economic system has become so complex and challenging that it has compelled policy makers, businesses and various segments of society to analyze the impact of various developments on not only India but on the world economic system at large. In view of the challenges, opportunities and impact of the global as well as domestic economic developments, the Workshop on Operational Economics would aim to facilitate participants to understand the emerging economic dynamics that would help them to better understand and take informed decisions in diverse areas of their functioning.

Growth in the Middle East and North Africa was an estimated 2.6 percent in 2015, slightly weaker than in 2014. The sharp drop in oil prices over the past two years and the continuation of several serious conflicts are major factors holding back activity in the region. Growth is expected to be little changed in 2016, at 2.9 percent. The marginal improvement is largely due to the expected strong recovery in the Islamic Republic of Iran following the lifting of sanctions in January 2016. Growth in most other oil-exporting countries, including most Gulf Cooperation Council (GCC) countries, will weaken in 2016, while performance in oil-importing countries will be mixed because of varied macroeconomic and geopolitical challenges. Risks to the outlook are tilted to the downside and include further declines in oil prices, the escalation of conflict in some countries, and fragile security conditions in others. Key policy challenges are to improve government finances; reduce economic dependence on oil; and address longstanding business environment, labour market, and financial sector.

By far the largest contribution to the projected growth in traded goods will come from machinery and transport equipment, reflecting the ongoing evolution …

It’s never been harder to know which countries are succeeding and which aren’t. Using GDP growth as a
typical economic indicator it seems that none of them are. Every region in the world has suffered a slowdown since 2008, and 2016 marks the seventh year in the weakest global economic expansion cycle in modern history.

Growth is achievable but requires a radical change in mindset. Economic, demographic and political trends are moving in a direction so different from the pre-crisis world, that one needs to apply new benchmarks for what constitutes economic failure or success.

“It’s time to rethink success and every nation needs to downscale its ambitions, “For example, annual economic growth of 5% for China should be considered a success, rather than the 7% or higher rate that many still expect. For developed nations, the benchmark should drop from 3% growth to 1.5%.

**Forces behind slowing global growth are:**

- De-globalization, where slower growth in global trade and shrinking capital flows are stunting the global economy.
- De-population, by which slower growth in the working age population is depleting the workforce.
- De-leveraging, where nations must at some point begin to pay down the $50 trillion in debt amassed since 2008.
- De-democratization, with economic distress driving more countries to seek relief in autocratic rule which, only raises the risk of economic instability.

After years of looking to China as a source of growth, Southeast Asian countries are turning their attention back to the world’s largest economy on the other side of the Pacific Ocean. Exports to the U.S. from all but one of the six largest economies in the Association of Southeast Asian Nations increased in the first quarter from a year earlier, according to the most recent data from the International Monetary Fund. Shipments to China declined in four of the countries in the same period.

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**Waning Luster**

**Southeast Asian exports to China are falling in 2016**

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**Deeper into the red**

India’s merchandise-trade deficit with China

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Of the roughly US$15tn in world trade that takes place today, nearly a third of that is conducted between emerging and developing economies

**The Southern Silk Road**

HSBC Chief Economist Stephen King calls this new commercial geography “the Southern Silk Road”, linking Latin America, Asia, Africa, and the Middle East. Much as the 1950s and 60s saw dramatic growth in trade among developed economies, HSBC sees “turbocharged trade growth” along this southern corridor in the 21st century. To some extent, it is already happening.

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Of the roughly US$15tn in world trade that takes place today, nearly a third of that is conducted between
emerging and developing economies, according to an examination of International Monetary Fund statistics. This share of intra-emerging markets trade has steadily risen over the past decade.

Brazil and India already conduct the majority of their trade – 58 per cent – in the ‘Southern Silk Road’, and China conducts nearly half. According to HSBC, by the year 2050, China will conduct 73 per cent of its trade South-South and India and Brazil will be at 83 per cent.

Africa’s new world map

So, how did Oshikango, once a backwater African village with high levels of poverty and disease, become a part of this story? It started with an act of infrastructure. The European Union offered a grant to build warehouses in the village bordering Angola. Those warehouses soon became part of the commercial lungs of southern Angola, feeding consumer goods from Latin America, Asia, and South Africa to the newly emerging Angolan middle class.

Most notably, as the scholar Gregor Dobler pointed out, the Oshikango trade network reflects Africa’s shifting patterns of trade, away from old colonial powers in the West, and more toward emerging economies of the ‘South’. Oshikango is, in a sense, a feeder spoke in a much larger wheel of global hubs and economies that are linking Africa to the growing web of South-South investment and trade.

If Oshikango is a spoke, Dubai is a hub. Dubai is emerging as a gateway to Africa, particularly for Chinese companies. Emirates Airline, the Dubai flagship carrier, flies to more African destinations than any Middle East carrier. Many of those flights are packed with Chinese executives based in Dubai, serving markets in Africa.

Transporting trade

While Dubai’s world-class hotels and lavish skyscrapers capture the headlines, its quietly efficient seaports and its air transport infrastructure make it a vital piece of the global trade puzzle. Dubai International Airport ranks sixth in terms of international passenger traffic, ahead of Singapore and just behind Frankfurt, according to Airports Council International. Its container terminal port ranks in the top 10 busiest. This transport infrastructure – along with oil in Abu Dhabi – is one reason why the United Arab Emirates today accounts for more world trade than Brazil, Australia, Saudi Arabia or Turkey.

Trade, development and dignity

The distinguished Indian journalist and scholar Sanjaya Baru wrote recently that, “the structural shift in the world economy, with Asia making up for the lost dynamism of the transatlantic economies, is altering the geography of development.” But this is not just a story of a new commercial geography. Nor is it only a story of the key hubs, of the companies, of the banks financing these new trade corridors, or the ships ambling across the Indian Ocean, binding West Asia and East Asia together. This is a story of the dignity of development and, in that respect, the world should be embracing the rise of the new South-South trade corridors and offering opportunities for better lives across the global ‘South’.

India seeks to boost its manufacturing industry and cut the trade deficit

Trends to look upon in 2016 and thereafter

1. Demographics: Economies almost never grow rapidly without strong growth in the working age population. If the working age population is growing at less than 2% a year, the economy posts rapid growth—faster than 6% a year—in just one out of every four cases.” Today, only two countries, Saudi Arabia and Nigeria, have labour force growth above 2%. In countries where the working age population is shrinking, GDP growth has historically averaged just 1.5%.

2. Billionaire lists: On a close look of the Forbes lists to identify countries most vulnerable to political revolt over inequality. Billionaire wealth as a share of GDP, and the share of billionaire wealth coming from inheritance and traditionally corruption-prone industries, because billionaire wealth is most likely to generate popular anger when it is rising as a share of GDP, and is generated from family or political ties.
3. **Cover Story Curse:** Mainstream forecasters are often behind the economic times. When mainstream general news publications are upbeat about any one economy, that country may slip into a downturn sooner rather than later.

4. **Asset Price Inflation:** Fear of global deflation may be distracting governments from the real indicator of ensuing recession: asset price inflation. Japan’s long and painful battle with deflation is unique in the postwar era, and a low risk as a result, according to Sharma. But there’s an increasingly tight link between asset bubbles and recession. “The Federal Reserve and many other central banks are thus ignoring the clear threat of asset price inflation to focus on one that may not exist.

As far as India is concerned, Global dis-inflation comes to India. India’s inflation problems are far from being solved. Inflation in India has fallen mostly on back of commodity prices.

5. **Kiss of Debt:** The debt crisis of 2008 sparked a hunt for signals of the next one. Countries where private debt has been growing much faster than the economy for five years should be put on watch for a serious slowdown, possibly a crisis as well. The country that now bears watching most closely: China. Chinese economy has become too large. Record debt facilitated china growth in the past. China debt has become source of vulnerability. Chinese economy was on debt binge. China is now 10% of global economic output. Too much debt over short time always a warning bell. China’s debt has grown to 250% of its GDP. So now china is paying the price of the debt binge.

6. **The Second City Rule:** In midsized countries, the capital city is typically no more than three times more populous than the second city. Countries like Thailand, where the capital dwarfs the rest, face a particularly high risk of rural rebellion.

7. **Follow the Locals:** Though currency crises are often blamed on the flight of foreign capital. Locals typically flee first. Locals have superior inside knowledge of looming trouble, so keep an eye on domestic capital outflows.

8. **Stale leaders:** The general rule is that high impact economic reform is most likely in a leader’s first term, less likely in the second, and unlikely beyond that point. Markets sense this process of decay. Even under successful emerging world leaders, who survive at least two terms, nearly all (90 percent) of market gains were concentrated in the first two years.

9. **Good vs. Bad Binges:** The impact of an investment bubble can be measured by what it leaves behind. Investment spending on real estate tends to leave behind empty houses and indebted families. But spending on manufacturing or technology leaves behind assets that will boost productivity when the economy recovers. So be aware that not all binges are created equal.

10. **Cheap Is Good:** Technical measures of a currency’s value are subject to manipulation, which is why investors need to trust how expensive a currency “feels” to visitors, whether buying coffee or companies. It is a good sign for emerging markets that many feel strikingly cheap just now.

11. **India’s public sector banks have become major problem.** Credit growth has fallen dramatically. India has seen privatization of the banking sector by benign neglect. Public banks have a share of 70% percent of assets compared to the average of 30% for emerging world. Public banks have very high NPA’s and these bad loans constraining the credit growth. Liquidity is not easily available to Indiainc. to pump in more money for investments and corporate growth.

12. **Geo-political risks looming largely.** Global anti-incumbency wave is rising. Obviously Global anti-incumbency a fall out of weak economicscenario. There have been highest violent conflicts in 2015 post-cold war.

*A LOOK ON Global Containerized and Bulk trade analysis*
Global Trade In Freefall: Container Freight Rates From Asia To Europe Crash 60% In Three Weeks

Annual growth of the world fleet, 2000-2015
(Per cent of dwt)

Clarkson Research Services, Shipping Review & Outlook, Spring 2015
RS Pinto Monthly, April 2015 F - Forecast
The Baltic Dry Index is a shipping and trade index, created by the London-based Baltic Exchange, which measures the sizes of dry bulk carriers or merchant ships. Changes in the Baltic Dry Index give investors insight into global supply and demand trends, and are a leading indicator of future economic growth (if the index is rising) or contraction (index is falling).

INDIA’S INITIATIVE

Current incumbents have taken lot of initiative and set the tone for India’s transformation. Now if the implementation of all these structural reforms does not take place in real time, it would be difficult for India to maintain the self-proclaimed “sweet spot” in global economy.

A fundamental recourse could be set for India to remain as one of the leader and driver of Global economy.

Let’s have a quick look on these reforms list which are touting to be setting as Transformation base for India on Global stage and considered as Growth prospects of the Indian economy:

1) Make in India
2) Jan Dhan Yojna
3) Digital India
4) Smart cities
5) Agricultural reforms – Crop per drop
6) Ebiz platform
7) Energy sector reforms
8) Infrastructure development
9) Swach Bharat
10) Skill development
11) Sagarmala project
12) Coastal shipping and Inland water ways promotion
Conclusion

The emerging global economic system has become so complex and challenging that it has compelled policy makers, businesses and various segments of society to analyze the impact of various developments on not only India but on the world economic system at large. In view of the challenges, opportunities and impact of the global as well as domestic economic developments, it’s important to fastly adapt and understand the emerging economic dynamics that would help us to understand better and assist in taking informed decisions in diverse areas of various functions.

Its all about Globalization radical phase. World needs to be connected more. Economic prosperity of all countries matters and one cannot afford to grow in isolation. But decentralization of global governance is changing the rules of the game. There is a shift in the Global governance role from the G7 nations to G20 nations. Along with it, some structural shifts are leading to the decentralization of financial and trade institutions and the undermining of the common rules of the game. On the trade front, the free trade regime, as governed by the world agreements such as the Trans-pacific partnerships (TPP) and the Regional comprehensive Economic Partnership (RCEP), which is under negotiation. Indeed, the number of active regional trade agreements has increased from 50 in 1995 to 280 today.

On the financial front, there are several newly powerful institutions dominated by China and some emerging -market countries, such as the Asian Infrastructure Investment Bank (AIIB) and the National Development Bank (NDB), each with a starting fund of $100 billion.

So basically in this new phase, growth will be less dependent on global trade. For emerging countries, growth will be determined more by internal structural reforms designed to drive domestic demand (Rather than exports). This is already happening in India, which is enjoying high rate of economic growth despite falling exports. For developed countries and China, growth will be driven primarily by improvements in productivity aided by new technology and innovation.

There is going to be era of value chain that would blend digital technology with older low-cost technologies allowing greater integration across products and services, and leverage the growth of independent global platforms for the exchange of goods and services.

So in the current phase of globalization companies will require to go beyond so-called globalization and would require to incorporate local nuances in a globally optimized business mode—to an approach that is far more country centric.

Digitization will not supplant old technologies instead it will transform competitive rules and supply chains for companies.