SupplyChainDigest™
Your First Stop for Supply Chain Information

How Big a Barrier is the "Logistics Divide" to Sourcing and Economic Development in the World's Poorest Countries?

New Conference Board Report says Lack of Reliability, and High Costs, Keep Western Companies Away; What Role Should Multi-Nationals Take in Spurring Improvements?

SCDigest Editorial Staff

Just how big is the "Logistics Divide" between the world's more successful countries and its weakest ones?

Last year, the World Bank created a lot of focus on the role of logistics in country competitiveness with its first ever "Logistics Performance Index," a measure of the overall logistics effectiveness of 150 countries. (See World Bank Report Ranks 150 Countries on Logistics Performance).

In that report, the World Bank observed that logistics effectiveness is tightly linked to a country's overall global competitiveness and opportunities for economic growth. It also found there were vast differences between countries in their attitudes towards logistics improvement.

Leaders are "logistics friendly," while at the other end are "logistics unfriendly" countries that are caught in a vicious circle that presents huge barriers to reform. Many other countries fall in the middle of these two extremes, but must make major commitments to reach better levels of performance.

A new report from the Conference Board follows up on that World Bank research, and calls out the Logistics Divide that is contributing to the growing disparity between successful countries, even those in still "developing" economies, and less successful ones. It finds logistics weakness to be a key factor in the economic disparity.

Lack of logistics infrastructure adds additional costs when calculating the potential to source from many of these countries, but even more important is the lack of supply chain predictability results from poor logistics support in a country.

That suggests multi-nationals must take a very proactive role in helping build logistics infrastructure in many of these nations – a role few companies can or would be willing to accept.

"For supply chain managers, reliability is the first priority. The first job in determining reliability is to identify the risk factors in supplier relations," the report notes. Poor logistics infrastructure leading to inconsistent cycle times for goods or materials from a given country will quickly raise that risk profile.

The net result, unfortunately, is that a significant number of countries are simply being left behind even as globalization races inexorably forward.

"The world is no longer one-sixth rich and five-sixths poor. Thanks to explosive growth in Asia, it will soon be more like one-sixth rich, two-thirds O.K. and one-sixth poor," the report suggests.

The report suggests that in some cases "Gateway" countries adjacent to logistically challenged regions can help – such as Morocco vis-à-vis a number of countries in Western Africa.

How Big a Barrier is the "Logistics Divide" to Sourcing and Economic Development in the World's Poorest Countries? (Con't)

Exhibit 1

Small and Distant Markets and Their Gateway Countries

Source: The Conference Board

REGION	SMALL AND DISTANT MARKETS	GATEWAY COUNTRY
Western Africa	Senegal, Mali, Côte d'Ivoire, Ghana, Burkina Faso, Togo, Benin, Níger	Morocco
Central Africa	Cameroon, Chad, Central African Republic, Gabon, Equatorial Guinea, DRC	Morocco
East Africa	Kenya, Tanzania, Uganda, Rwanda, Burundi	South Africa
Southern Africa	Bostwana, Lesotho, Zimbabwe, Malawi, Zambia, Mozambique	South Africa
Central Asia	Kazakhstan, Uzbeskistan, Azerbaijan, Kyrgyz Republic, Tadjikistan	Russia, China
Andean Countries	Bolivia, Peru, Equator, Colombia, Paraguay	Chile, Argentina
East Asia	Cambodia, Laos, Mongolia	Thailand, China, Vietnam

The report also suggests that some multi-national companies are finding ways to effectively source from many of the logistically challenged areas, using some combination of the following four strategies:

- Technology/skills transfer and local political muscle to drive down transportation-to-market costs
- Sourcing close to market to limit transportation costs
- Enhancing product/value cost through brand equity to trump costs
- Success in developing innovative public-private partnership to drive productivity and competitiveness

That suggests multi-nationals must take a very proactive role in helping build logistics infrastructure in many of these nations – a role few companies can or would be willing to accept.

The report also says that rising transportation costs will make it even harder for logistically challenged countries to become competitive – based on costs alone. Rather, they will need to develop sourcing "niches" and specific value-add.

"In the long run, geography and rising fuel prices may limit the effectiveness of [logistics] cost control strategies," the report says. "It may be equally if not more important for these global players to find ways to add value to products through improving workforce skills and developing diverse networks of small suppliers that are able to achieve higher quality standards than their larger competitors. Ultimately, adding value may be the key strategy in achieving the integration of poor countries into global supply chains."