

Development of Trade and Transit Corridors

The Role of Private and Public Sectors

Alina Mustra, World Bank

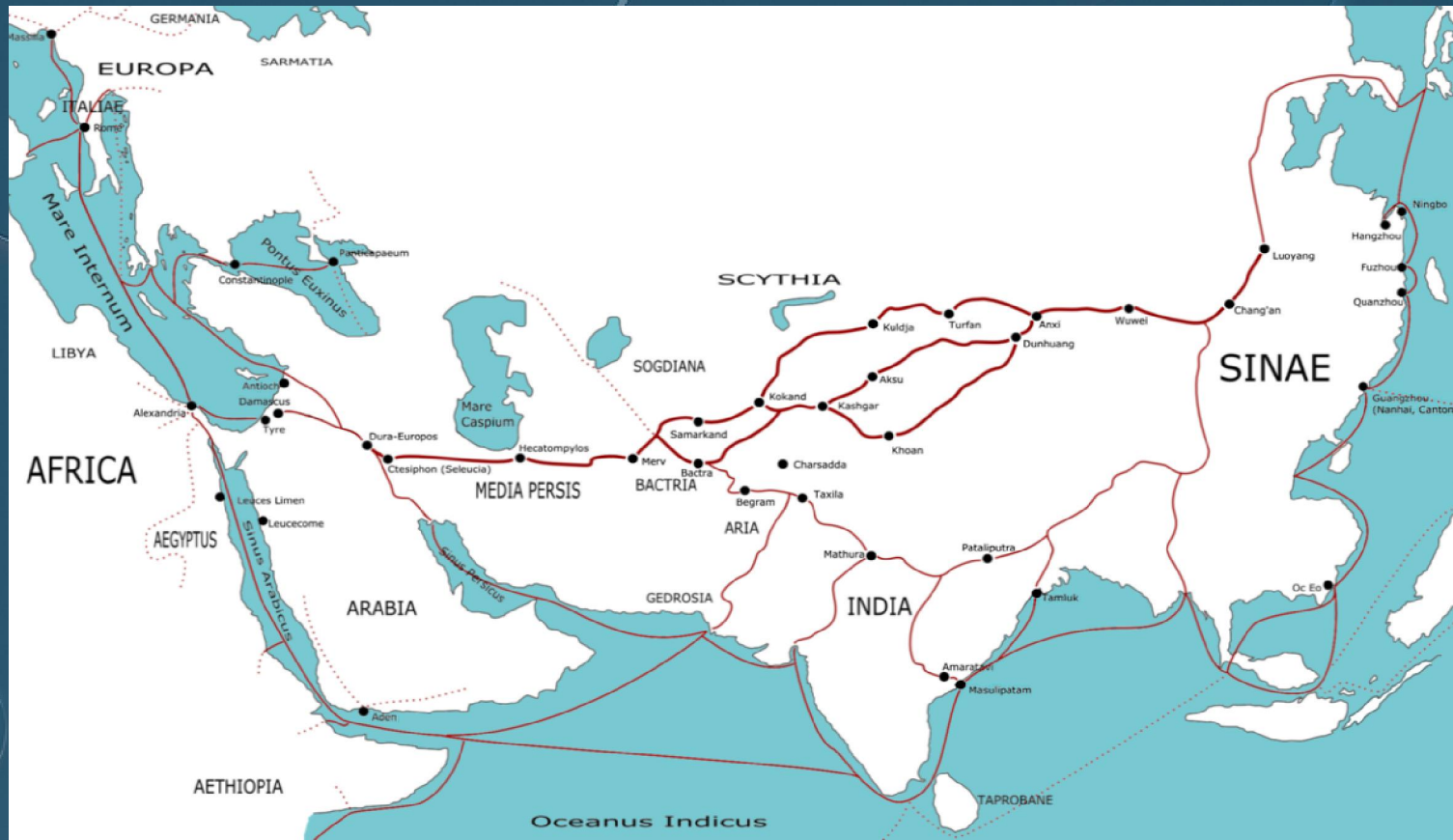


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New Solutions for an "Old Problem"?

Global SC 1st century AD





A Sub-Optimal Equilibrium

- | Extremely dysfunctional worldwide apart from Western Europe
- | **Logistics costs** supported by traders **comes from “soft” constraints that affects service delivery:**
 - q Inadequate market for services (trucks)
 - q Unreliability of corridor supply chain increased by inadequate design of transit arrangements for goods and vehicles
 - q Rents
- | Challenge from lack of incentives for change and political economy constraints



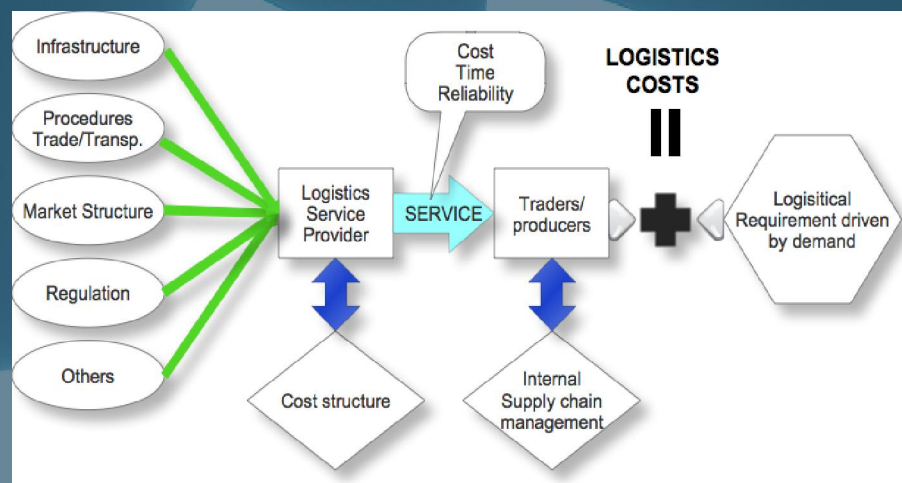


Shifting Priorities Towards Improving Services to Traders

From Access(-ibility) Priorities...

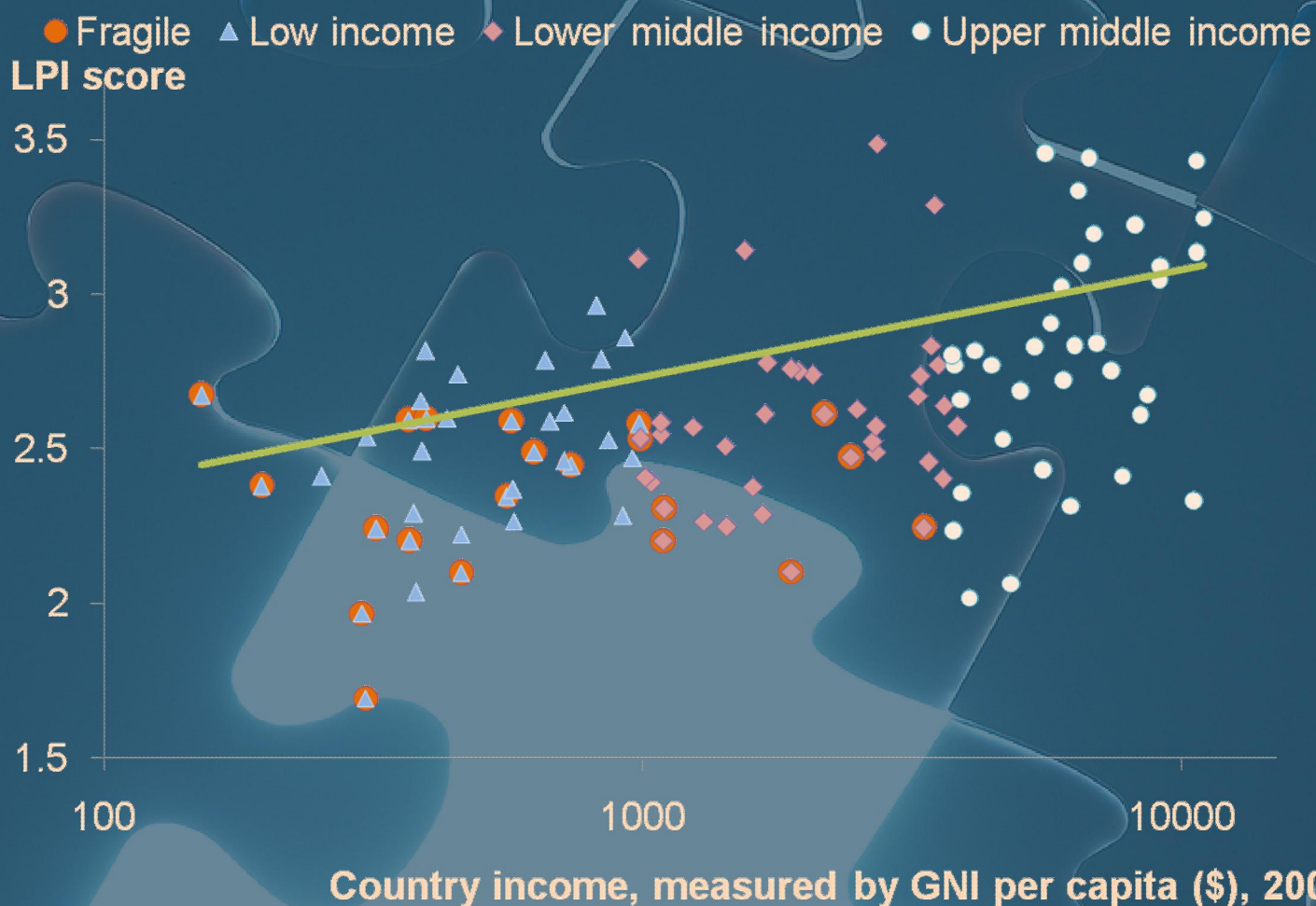
- Development of physical infrastructure
Still the main constraint?
- International Law and Regulations
Lack of agreement or lack of implementation?

... Towards Improving Services to Traders...





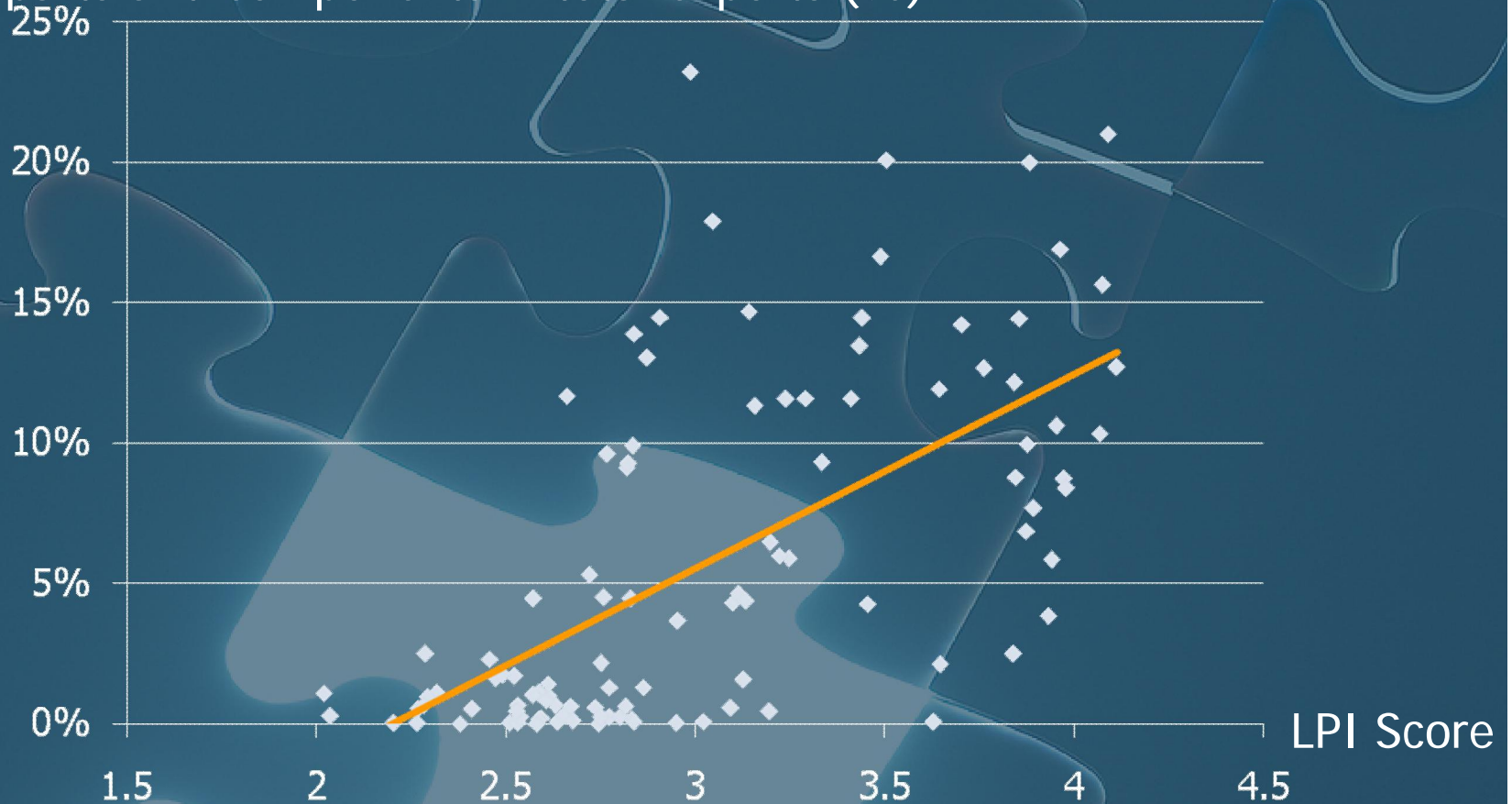
Logistics services efficiency critical for competitiveness





Development of international production networks

Share of parts and components in total exports (%)



◆ Share of Parts & Components in Total Exports — Fitted Values

6



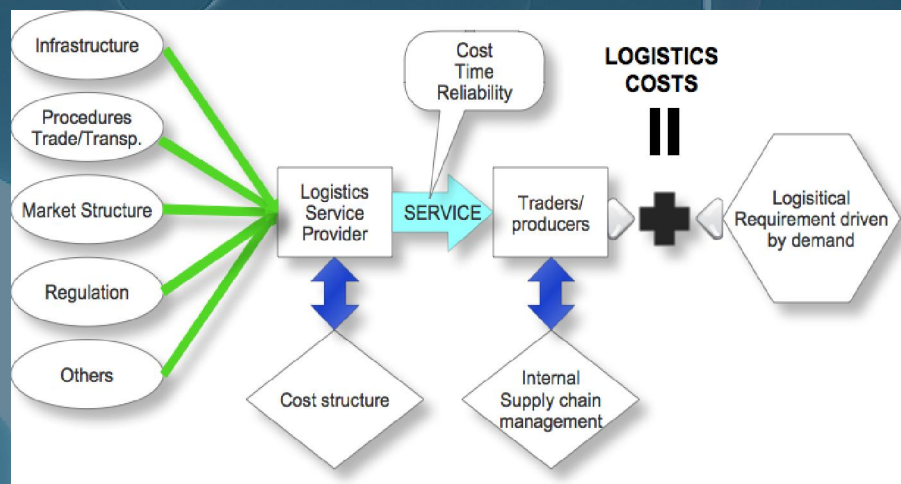
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Focus on Improving Corridor Performance

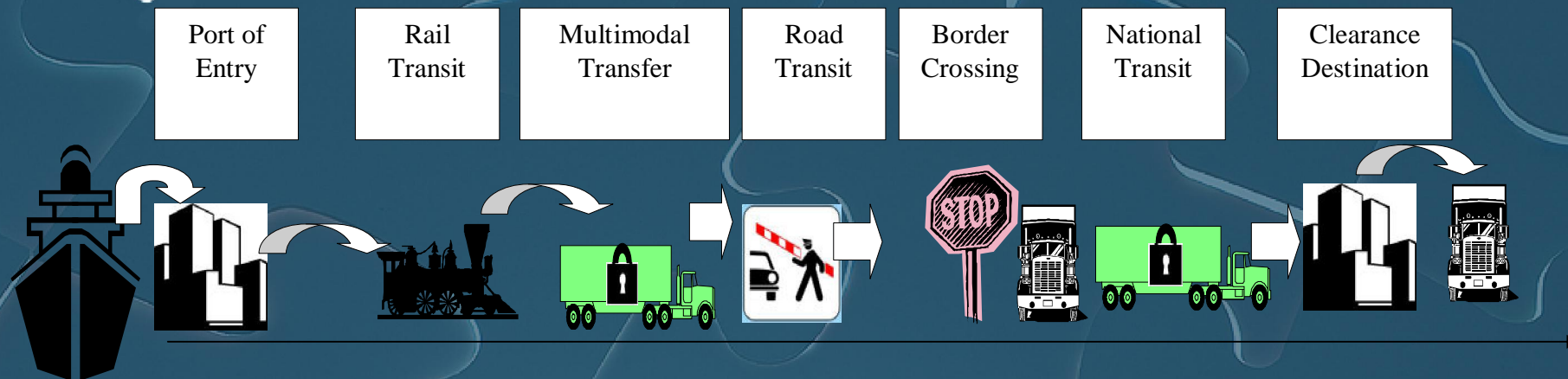
Interventions have to focus on improving the performance of the corridor

- | How do we assess performance?
- | Corridor performance indicators
 - | Cost
 - | Time
 - | Reliability

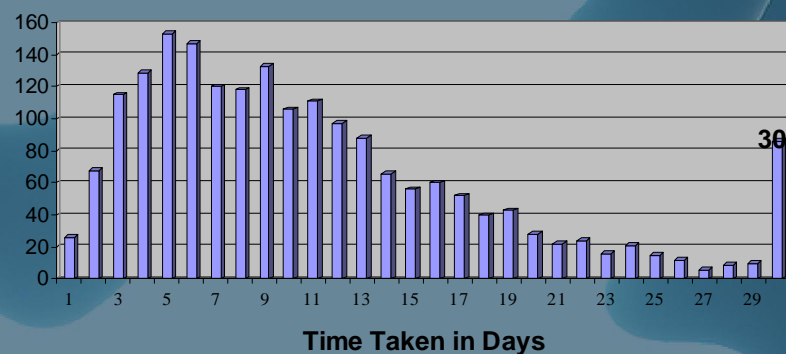




Cost, Time and RELIABILITY!



Unreliability can be everywhere
 \Rightarrow multiplier (3-5 or more) for inventories over mean delay for time sensitive shippers.





Sources of Unreliability in Corridors serving LLDCs

Largely a problem of **fragmentation** or **quality of processes and services**:

- | Multiple clearances and control and not only at the border: the same procedure can be repeated up to seven times on certain corridors;
- | No continuity across and even within borders;
- | Typically much time is spent to initiate transit operations;
- | Fragmented market structure of core services (truckers and brokers) and little incentive for quality services: monopolies, entry barriers, regulated freight operations;
- | Infrastructure quality no longer the major cause of unreliability.





The Potential for Cost Reduction

... in three key policy areas

- ✓ **Transit systems and processes:** ensure effective implementation mechanisms of transit agreement, and reduce multiple clearance, differentiated treatment of operators
- ✓ **Logistics Services market:** Align incentives for efficient transport and transit operations, phase out anti-competitive practices such as cartels and queuing system wherever possible.
- ✓ **Corridor Management:** cross-border cooperative institutions, public-private dialogue, monitor performance (indicators)





A challenging agenda to implement: How are Bank financed Projects Changing?

The objective of improving service delivery for traders
implies a combination of:

- Investment in infrastructure
- Institutional capacity building
- Regulatory reforms

⇒ Combine and balance support to investment and
Technical assistance, Cross-Border,
Trade Facilitation Facility



A Dynamic Environment



New focus

Quality and efficiency of service providers

- Freight forwarders
- Customs brokers
- Truckers

Trade Related infrastructure

- Roads
- Ports
- Railways

Cross-cutting issues:

- Collaborative border management
- Making transit work

Customs reform and modernization

- Fiscal focus
- IT orientation

Old focus

Both the old and new focus needed for success!





World Bank-financed activities

1. Bank-financed **Investment** Projects: IBRD and IDA
2. **Technical assistance**: the Trade Facilitation Facility and partnerships
3. **Knowledge** production and dissemination

⇒ Key findings and lessons

⇒ Several publications available





Technical Assistance: Trade Facilitation Facility (TFF)

TRADE FACILITATION FACILITY

Multi-donor trust fund ~ 40MUSD

Managed by the World Bank

Support concrete improvements in TF systems

Help reduce developing countries' trade costs

Emphasis on Africa/low-income countries

Beneficiary ownership: request from countries REC



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Area of Focus of the TFF

Border management

Improvement in border management in a broad sense: integration of customs, product standards, tax, rules of origin, etc.

Trade Infrastructure

Improvement in the management of key trade related infrastructure, especially gateways and multimodal facilities

Logistics services

Improvement of the quality/professionalism of private logistics services, through technical/economic regulation and capacity building

Regional

Regional trade facilitation including transit systems

Indicators

Performance monitoring and indicators: e.g., data on time, cost, and reliability along corridors

Action plan

Development and implementation of comprehensive action plan addressing all of the above





Global Support and Partnerships

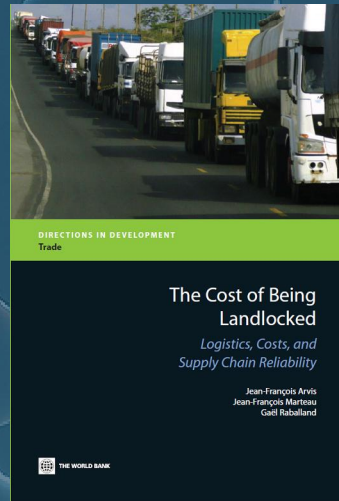
- | Support to the WTO TF negotiating group,
- | ... Preparation of expanded assistance to address gaps on the ground.
- | Global Facilitation Partnership GFP
- | Private Sector Partnerships:
 - | A4T facilitation with GEA (-> IT)
 - | Private Investor in Africa (-> West Africa Corridors)
 - | Road Safety Partnerships (-> East West Central Africa)





Knowledge Products and Dissemination

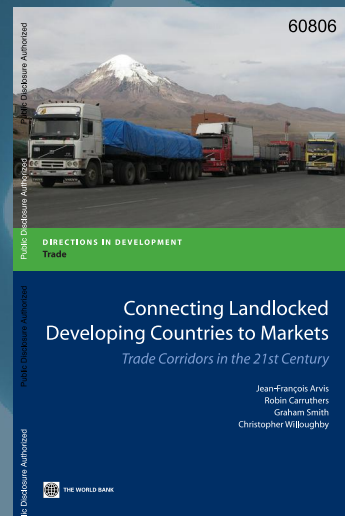
The Cost of Being Landlocked (2010)



Lack of reliability and predictability of supply chains affect trade most, not just transportation costs

Caused by fragmentation of institutions and procedures governing corridor transit not just border delays or poor infrastructure

Connecting Landlocked Developing Countries To Markets (2011)

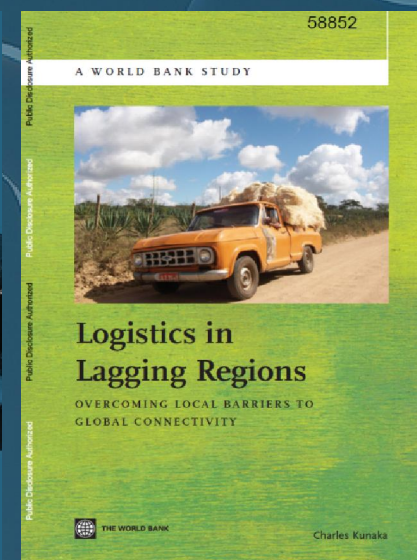
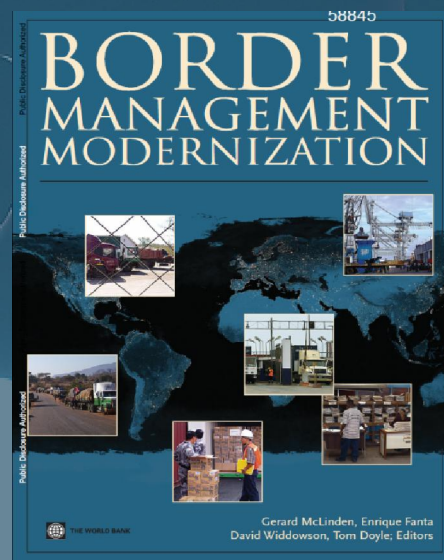
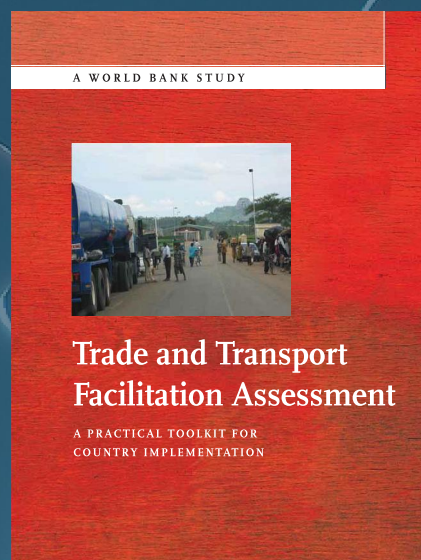


Review of institutions and policies related to trade and transport corridors and their implementation in developing and industrialized countries worldwide

Focus on Transit Regime and Corridor Management



Key Reference on Trade Facilitation



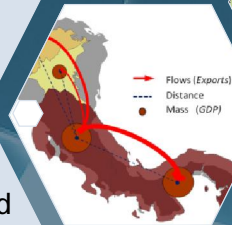
FORTHCOMING: Corridor Management Toolkit, Logistics Services

Analytical and conceptual tools

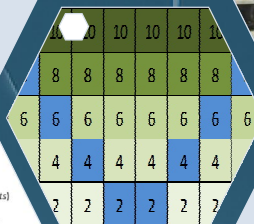
Logistics
Performance
Index



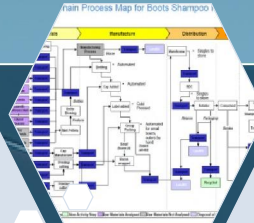
Optimal Path
Freight Flow
Modeling



Urban
Logistics



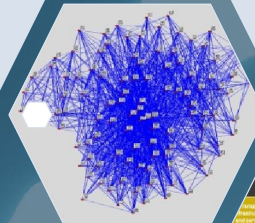
Trucking
& Logistics
Services
Surveys



Gravity
Model

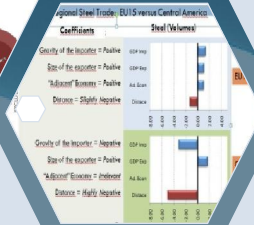


Corridor and
Infrastructure
Analysis



Networks
Connectivity
Model

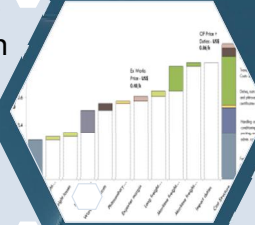
Trade &
Transport
Facilitation
Assessment



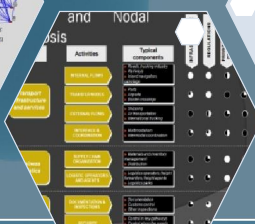
Customs &
Border
Management
Modernization



Supply
Chains



Sectoral and
Nodal
Diagnosis



Port Surveys
and
Travelogues





Global Data and Database

- | Logistics Performance Index (LPI)
 - | May 2012
 - | Regional briefs, LLDCs findings in book.
- | Others:
 - | Doing business
 - | ICAs
- | Corridor data (under development in the corridor toolkit)
- | Trucking services agreements database
- | Port performance and revision of "TRS"
- | Revision of the compendium of SSA legal instruments
- | Research Department (DEC): Trade costs, services, impact of A4T...





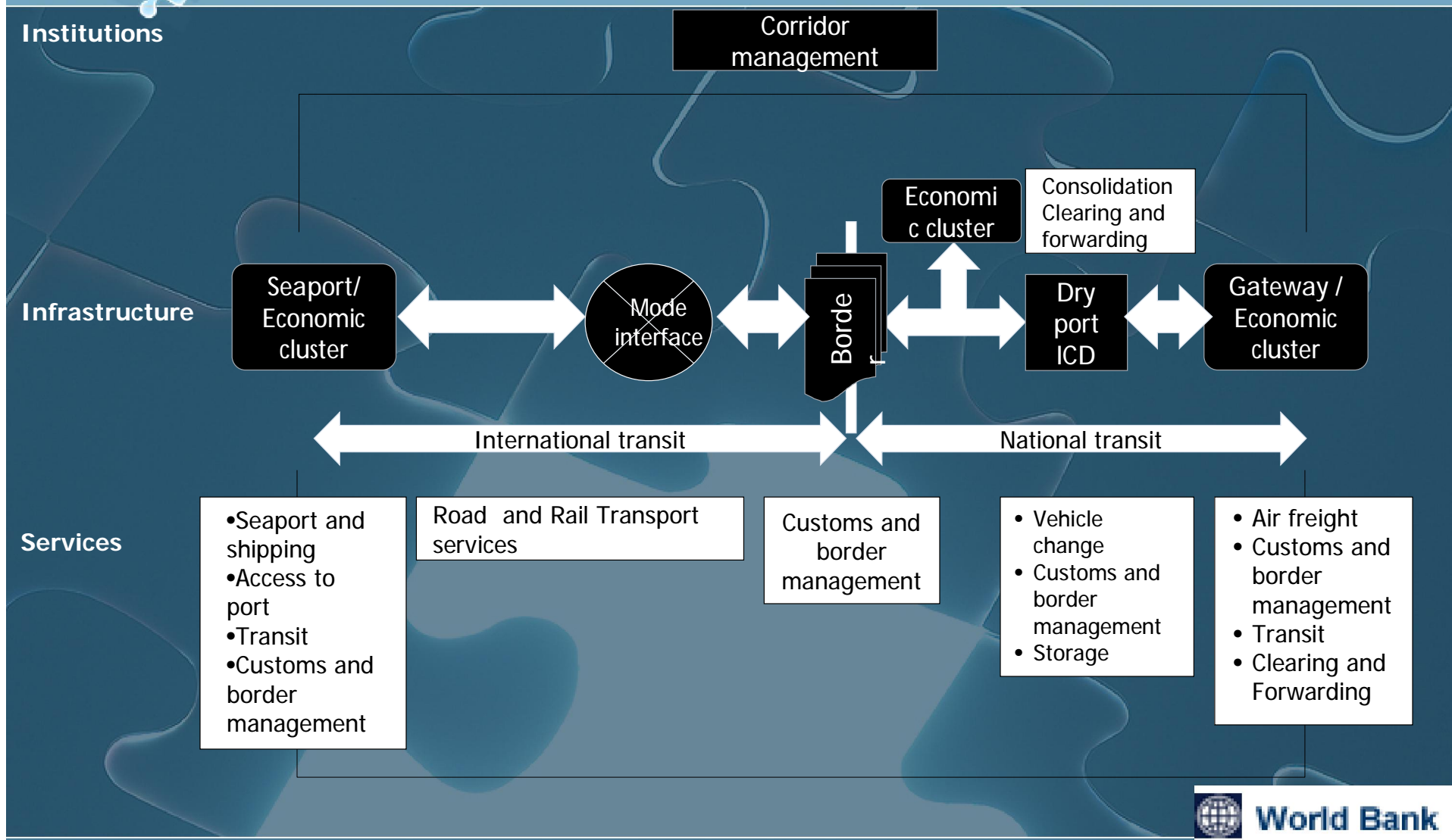
Relevant World Bank-financed Corridor Projects

- CEMAC TTF (Douala Corridor)
- West Africa (Tema Ouaga)
- North-South Corridor
- Afghanistan (new tranche customs support), and Pakistan (national corridor)
- Kazakhstan (Western Europe-Western China transit corridor, customs support)
- Corridor Assessments in EAP
- Earlier projects: Beira, Mombasa corridors
- Other corridors (not LLDC related): Mashreq, Abidjan Lagos, Caucasus



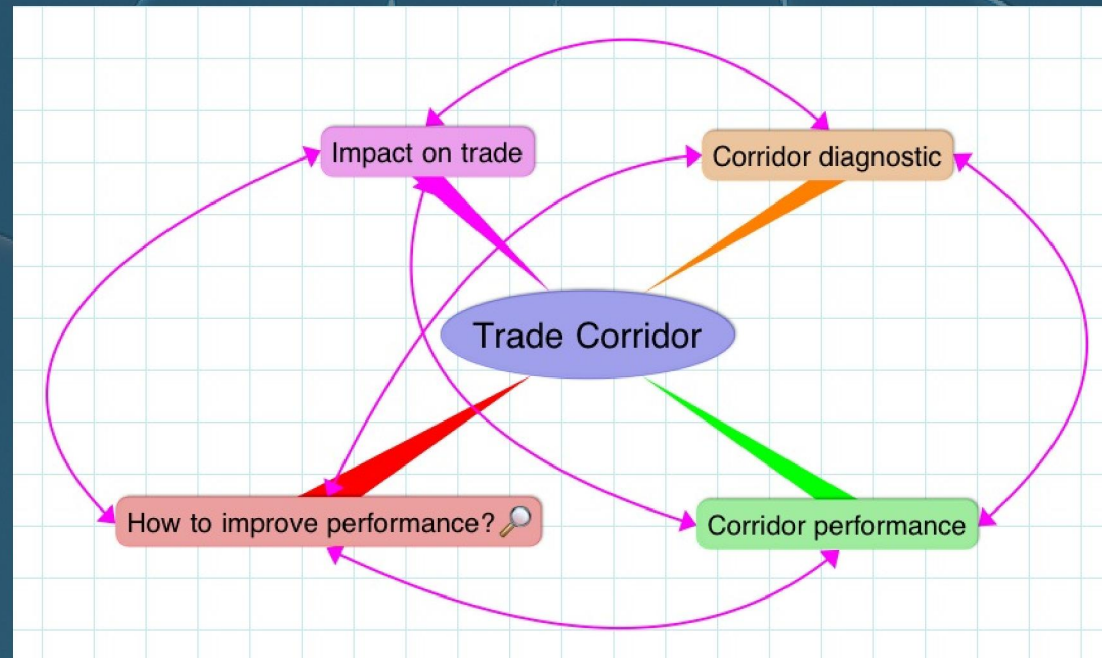


A Corridor and its Components





Design of Toolkit



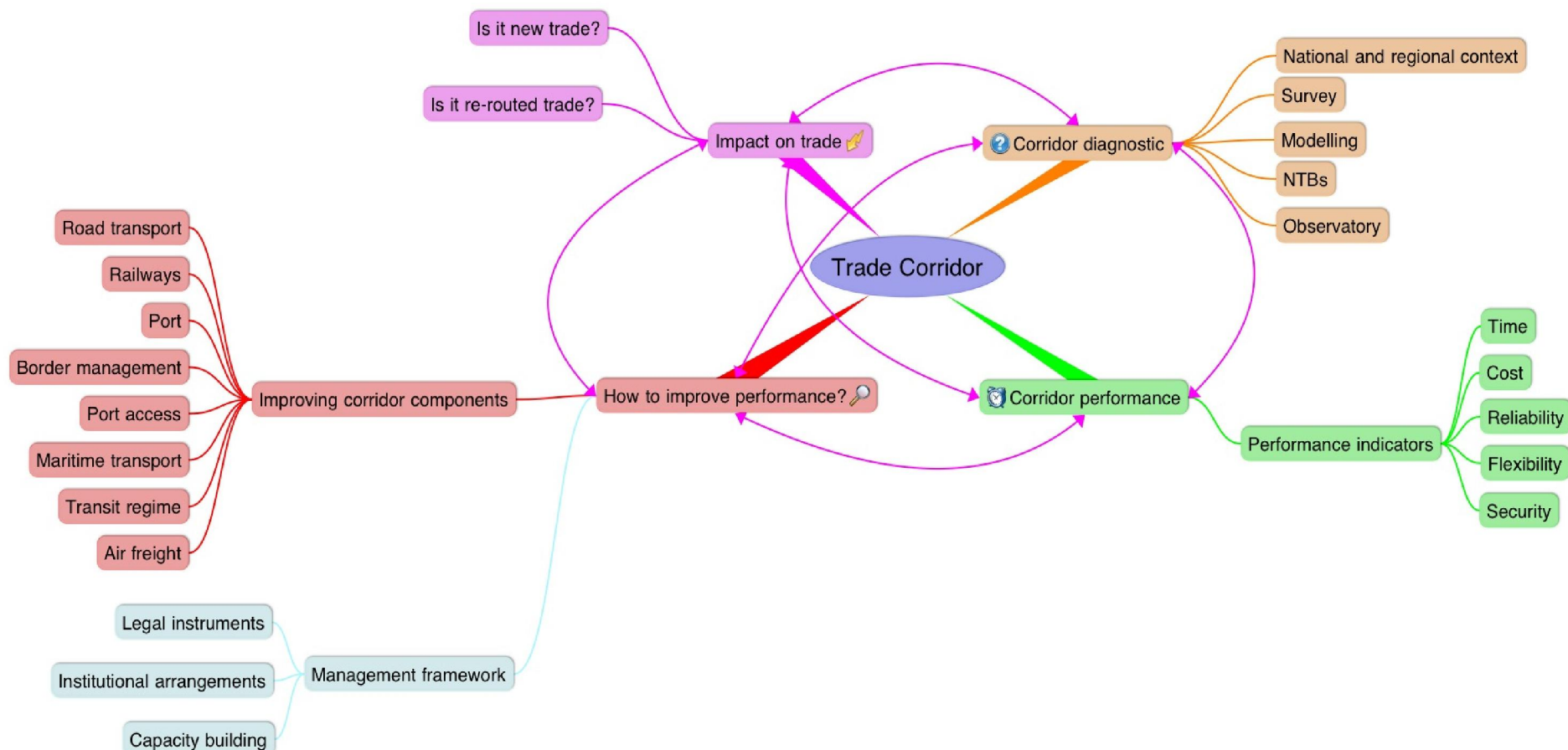
I The Trade Corridor Management Toolkit

- I Based on large body of existing knowledge from Bank operations, and from several other agencies and countries
- I Designed to support increasing volume of corridor-based operations.
- I 14 modules addressing how to diagnose, measure and design interventions to improve corridor performance and assess impact



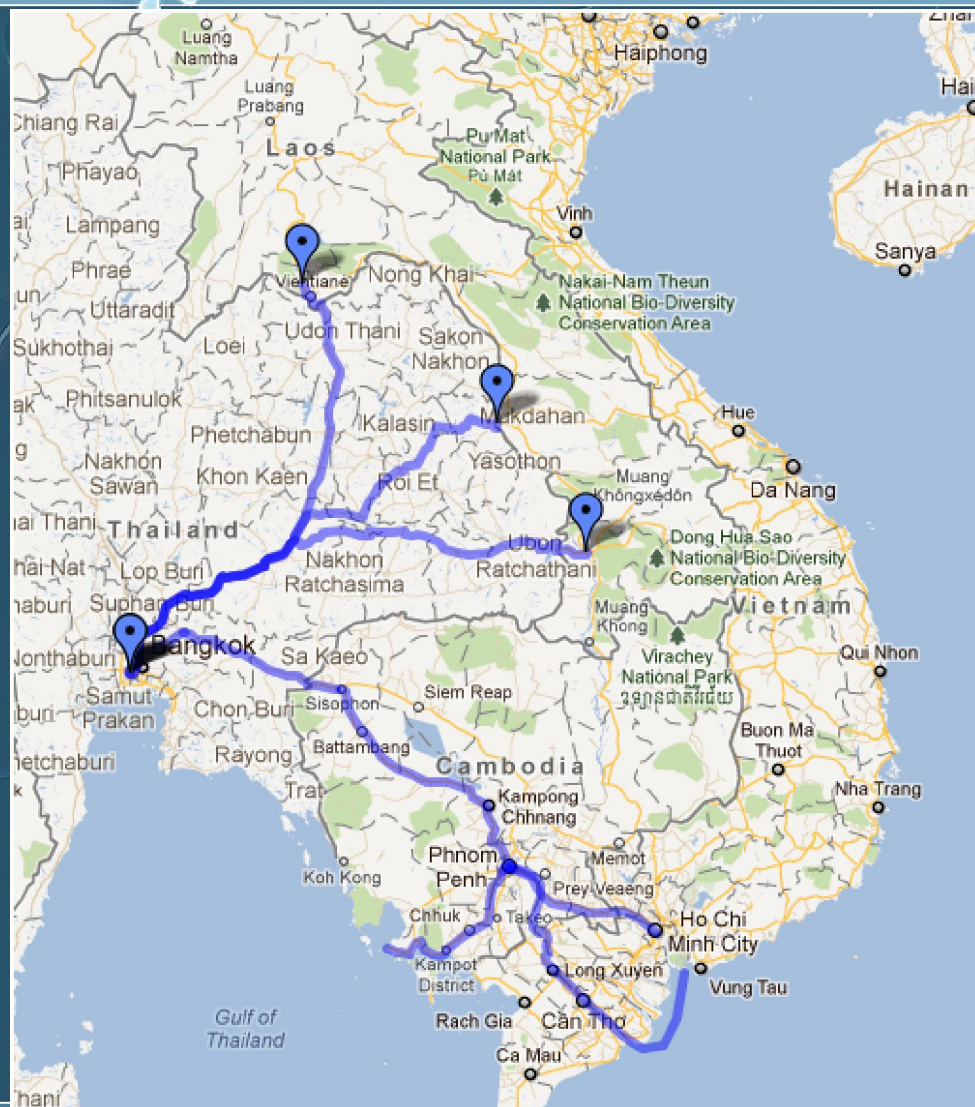


The Trade Corridor Management Toolkit





Corridor Assessments in EAP



- Toolkit tested in AFR, SAR, EAP + lessons from ECA and LAC

- Example:- Assessments in Cambodia, Laos, Thailand

- Problem:

 - High transport costs

- Approach

 - Interviews with key stakeholders (public and private sectors)
 - Trucking survey
 - Border survey



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A Tale of Two Countries

Cambodia

- | Alternative routes
 - | Domestic port, Vietnam (road, river)
- | High costs
 - | Informal fees
 - | Transshipment
 - | Firewall between KH and TH services
 - | No spillover effects
 - | Future:- Minibea initiative
 - | Competition between ports

Laos

- | Small volumes
 - | At least half of outbound trips are empty
- | Chains controlled by Thai and overseas buyers
- | Tight container return limits imposed by shipping lines
- | How to consolidate volumes
 - | Road vs rail transport economics
 - | Is there potential in using a dry port or ICD, and where should it be?
 - | Can Laos piggyback on NE Thailand logistics services





Lessons from elsewhere ...

Nepal : Three Dry Ports at the common border with India

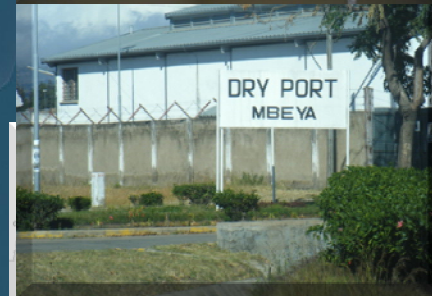
- | Birgunj – is largest
 - | Linked to Kolkata Port by rail
 - | But Nepal cargo only trains
 - | Leads to long cargo dwell time in port
 - | Operated by private sector

Tanzania: Dry port at Mbeya – 100 km from Malawi border, 880km from Port of Dar es Salaam in Tanzania

- | Linked by rail to port
- | But has experienced declining volumes
 - | Poor performance of railway
 - | Shipper preference for road transport
 - | Competing trade routes

South Africa: City Deep dry port in Johannesburg, industrial and logistics hub

- | Scheduled rail services between port and dry port
 - | up to 19 x 100 TEU trains per day
- | Handles domestic as well as traffic for landlocked countries
 - | Transit volumes are small proportion of domestic flows
 - | Removals are by road or rail





Main Messages, Lao

- | The seems to be acceptance of a **high logistics cost equilibrium** – though the trade corridors between Laos and Thailand perform well in terms of time and reliability
- | Prospects for reducing costs depend on **cooperation with Thailand** (and Vietnam)
 - | Laos should piggy back on the more efficient operations in Thailand
 - | But ... Thai law does not allow transshipment of third country cargo in Thailand – Thai exports can be transshipped
- | In the short term Laos can benefit from greater **openness to Thai service providers** especially trucking, forwarding and warehousing
- | In the medium to long term a **rail linked dry port** in North east Thailand could help disrupt the current high cost equilibrium
- | Laos needs to co-develop **a logistics strategy** with its coastal neighbors

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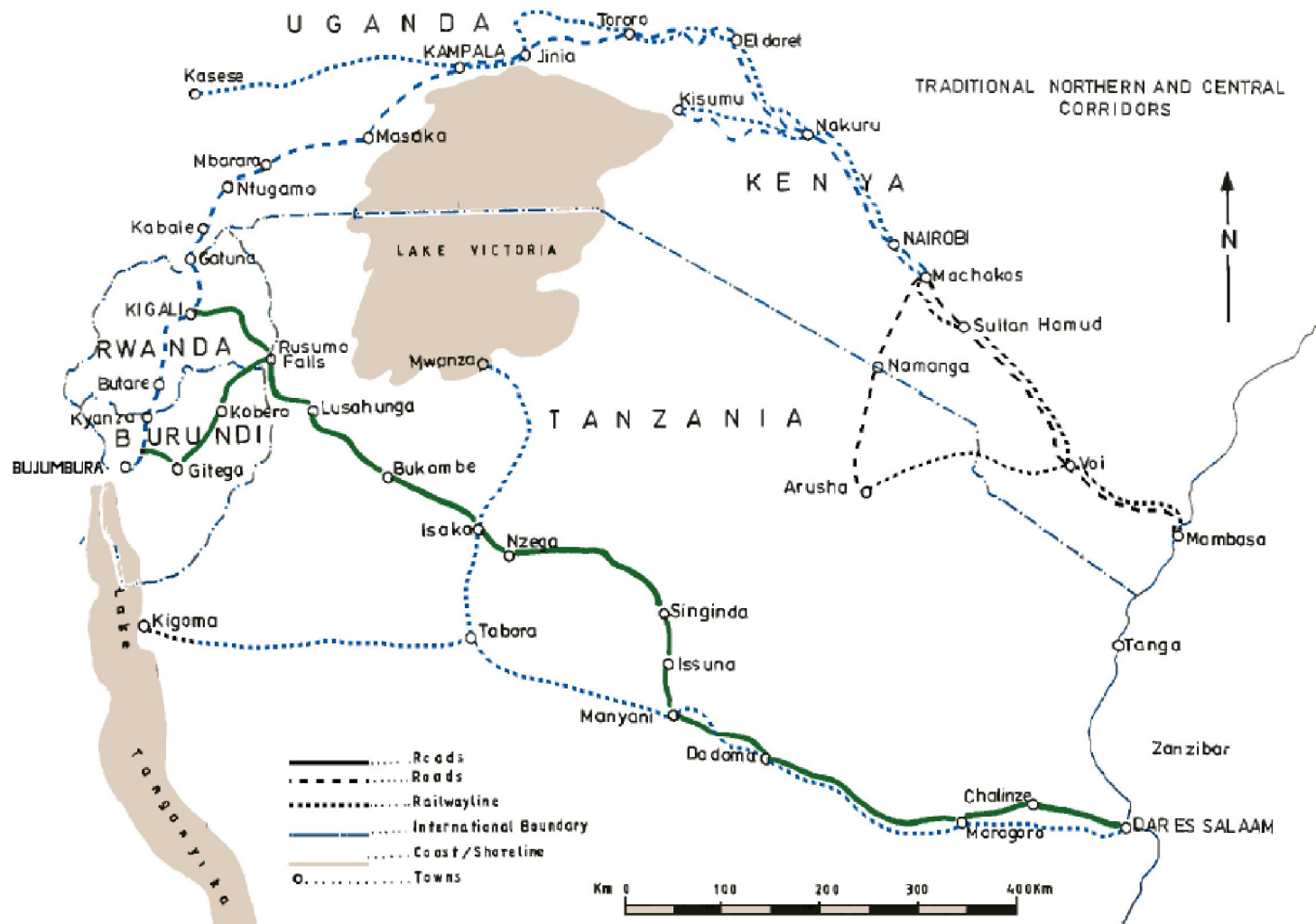
Trade and Transport Corridors in the African Context

- | Largest concentration of **landlocked countries**: Sub-Saharan Africa
- | High transport **costs** are recognized to be a burden on the low value, high volume commodities that are produced (long distances, border delays, etc.)
- | Reducing costs is critical to **trade** expansion and growth
- | The **corridor approach** is actively pursued to:
 - | Help **prioritize** infrastructure investments and maximize returns to **scale**;
 - | Stimulate **growth**, trade and investment along key international transport routes;
 - | Typically based on **agreements** between states that identify cross-sectoral cluster investment opportunities for PPPs.
 - | Expected **Outcomes**: access to seaports, virtuous cycle of expanding regional markets, increased regional integration, a regional approach to FDI, job creation, Small and Medium Size Enterprise (SMMEs) development, strengthened planning and managing capacity of local governments and rapid economic growth.





The Example of The Northern Corridor



- Links DRC, Burundi, Rwanda, Uganda, Kenya, (and South Sudan)

It is one of the best known and probably most studied corridors in SSA



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The Example of The Northern Corridor

- | **Role of the Northern Corridor:** **Vital trade link for landlocked countries in the region:**
 - | 95 percent of the goods that are imported into, or exported out of, Uganda pass through the port of Mombasa;
 - | There is a rail line on the route but 90 percent of the cargo on the corridor travels by road.
 - | From 2006 to 2009, trade volume at the port of Mombasa grew at close to 9 percent a year, with most of that cargo going along the Northern corridor – along with bilateral and other domestic trade.
- | **Project's Objective:** **Improve the movement of cargo and tackle delays and inefficiencies through:**
 - | effective implementation of the EAC Customs Union Protocol;
 - | Increasing transport and logistics services efficiency; and
 - | improve railway services in Kenya and Uganda.





Northern Corridor: Achievements so far

- | Lower transit costs and transport times along a key road route linking Kenya's international seaport at Mombasa with Uganda and other countries in Africa's interior, aiding trade between these interior countries and the outside world:
 - | Transit times at the border have now been reduced from three days to three hours;
 - | Dwell time at the port of Mombasa is down from 19 to 13 days, and transit time along the Mombasa-Nairobi-Kampala section of the route has dropped from 15 to five days;
 - | Processing times at the Mombasa Port have been lowered due to information sharing among agencies;
 - | Joint inspection of cargo and exchange of electronic information due to increased cooperation between Kenyan and Ugandan agencies
 - | Efforts are underway to develop a one-stop border post

=> Ease of movement of cargo and increase in vehicle utilization



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Video Feature: Trade Facilitation



<http://go.worldbank.org/68IEJP0MJ0>





Conclusions

The development of trade and transit corridors requires **holistic regional planning** with the view to unlock growth potentials in “lagging” regions

But ...

- | Each corridor is **unique** and development prospects depend on the convergence in temporal and geographical space of several factors (political, economic, global trends, etc.)
- | Evolution is not a linear process from transport to development corridor but **mutually reinforcing** processes are at play
- | Development requires **active participation of public and private sectors** ... including all levels of government (local, provincial, national)
- | Critical to assess upfront the economic **fundamentals** as there are usually competing routes and investments





Thank you for your kind attention!

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Washington Office
1818 H Street NW
Washington DC 20433

Contact: tradefacilitation@worldbank.org



Alina Mustra, Trade Specialist, GFP Coordinator
International Trade Department, mmustra@worldbank.org



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