Trade Logistics for Inclusive Development and Supply Chain Efficiency: Status, Challenges, and Questions for Discussion

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Based on a background paper prepared for ADB (co-authored with Shintaro Hamanaka). See the paper for full details.

1. Trade Logistics, Inclusive Growth, and Supply Chain Efficiency

- Trade logistics = the grease in the wheels of international trade.

- Increased trade and participation in regional and global value chains promotes higher national incomes, and helps move towards development objectives.

- Logistics—particularly internal logistics—reduces the wedge between consumer and producer prices, and thus helps groups like agricultural producers get their products to market at a better price.

2. Current Status in the Asia-Pacific

- Shortage of good, internationally comparable metrics on trade logistics.

- World Bank's Logistics Performance Index covers 155 countries, based on a survey of 1,000 logistics professionals.
  - International LPI: Respondents in one country rate performance in other countries. Six core dimensions of logistics performance, aggregated to make a single index ("the LPI").
  - Domestic LPI: Respondents rate performance in their own country. Detailed qualitative and quantitative data, including time and cost.

- The LPI is a convenient entry point into assessing logistics performance across countries, but is only the beginning of an analysis. Needs to be accompanied by other, more specific indicators.

2. Current Status in the Asia-Pacific

International LPI and its Components

	Central Asia	East Asia	South Asia	Southeast Asia	The Pacific
Overall Score	2.53	3.54	2.54	3.02	2.40
Efficiency of the Border Clearance Process	2.44	3.29	2.37	2.78	2.14
Quality of Infrastructure	2.41	3.59	2.38	2.82	2.15
Ease of Arranging Competitively Priced Shipments	2.48	3.44	2.48	3.02	2.40
Competence and Quality of Logistics Services	2.43	3.46	2.59	2.95	2.17
Ability to Track and Trace Consignments	2.49	3.55	2.51	3.11	2.46
Timeliness of Delivery	2.89	3.90	2.91	3.42	3.06

2. Current Status in the Asia-Pacific

Major Sources of Delay

	Central Asia	East Asia	South Asia	Southeast Asia	The Pacific
Compulsory Warehousing and Transloading	55%	11%	30%	19%	NA
Pre-Shipment Inspection	63%	9%	23%	31%	NA
Maritime Transshipment	42%	4%	40%	13%	NA
Criminal Activities	1%	3%	6%	9%	NA
Informal Payments	34%	6%	25%	17%	NA

3. Challenges for Policymakers

1. Accurate measurement of logistics performance.
2. The scope of commercially meaningful coverage of logistics.
3. Lack of demand-side perspective.
4. Difficulties relating to cross-border cooperation.
5. Persistent policy barriers.
6. Disadvantages that landlocked countries face—transit issues.
7. Ensuring consistency between hard and soft infrastructure.
8. Poor internal logistics and domestic logistics capacity.
9. Delays caused by criminal activities.
10. An emerging issue—green logistics.

4. Examples of Overcoming Challenges

- CAREC Corridor Performance Monitoring Measure (CPMM).
  - Challenge 1: Accurate measurement of logistics performance.

	1	2	3	4	5
Route	Kuldzha-Moskow	Korgas-Troitsk	Bakhty-Tashkent	Dortmund-Shymkent	Stambul-Bishkek
Commodity	Footwear	Equipment	Consumer Goods	Rubber discs	Home appliances
Perishable	No	No	No	No	No
Cargo weight (tons)	20	20	22	19	15
Container?	No	No	No	No	No
TIR?	Yes	Yes	Yes	Yes	Yes
Distance (km)	2,485	2,451	1,765	2,106	2,458
Transit time (hrs)	43.78	38.47	29.95	33.08	38.12
Activities time (hrs)	86.25	78.18	46.33	27.5	35.83
Total time (hrs)	130.03	116.65	76.28	60.58	73.95
Vehicle operating cost ($)	1,441.3	7,132.41	2,389.81	2,232.36	
Activities cost ($)	402.01	98.17	137.34	82.01	4,936.9
Total Trip Cost ($)	1,843,31	7,230.58	2,527.14	2,314.37	139.35
Speed without delay (SWOD) in km/hr	56.76	63.72	58.93	63.66	64.49
Speed with delay (SWD) in km/hr	19.11	21.01	23.14	34.76	33.24

4. Examples of Overcoming Challenges

- The Greater Mekong Subregion: logistics corridor development and trade facilitation.
  - Challenge 4: Difficulties relating to cross-border cooperation.
  - Challenge 6: Disadvantages that landlocked countries face—transit issues.
  - Challenge 7: Ensuring consistency between hard and soft infrastructure
  - Challenge 8: Poor internal logistics and domestic logistics capacity.

- Integrated approach: physical infrastructure (national and international), regulations, and institutions to facilitate cross-border trade.

- Regional cooperation in all areas, although more progress is still needed to move towards a fully integrated economic corridor approach that is well implemented on the ground.

- Evidence of increases in trade flows and reductions in travel time, but causal attribution is difficult.

4. Examples of Overcoming Challenges

- The Maputo Corridor Logistics Initiative.
  - Challenge 3: Lack of demand-side perspective.
  - Challenge 4: Difficulties relating to cross-border cooperation.
  - Challenge 8: Poor internal logistics and domestic logistics capacity.
- Connecting Johannesburg (SA) with the port of Maputo (Mozambique).
- Covers infrastructure and service sector development.
- Interior links connecting major population centers with the corridor.
- Private sector focus. Development involves stakeholder participation, including corridor users (information sharing and awareness of improvements).

4. Examples of Overcoming Challenges

- Upgrading port infrastructure and customs reforms in Indonesia.
  - Challenge 7: Ensuring consistency between hard and soft infrastructure.
  - Challenge 8: Poor internal logistics and domestic logistics capacity.

- Tanjung Priok is reaching or exceeding capacity. Plans to double capacity by 2017.

- Developing infrastructure takes time and investment resources. In the meantime, improvements to port operating procedures can improve performance:
  - Working with the private sector to deal with cumbersome pre-clearance procedures, and improve filing times by shippers.
  - Higher storage fees to act as a disincentive to leave containers for long periods.

- Indonesia is made up of over 10,000 islands, so port improvements also address domestic connectivity.

- Port improvements combined with upgrades to feeder roads, so that the port is better connected to consumption and production centers.

4. Examples of Overcoming Challenges

- Border clearance reforms and transport infrastructure improvements in Senegal.
  - Challenge 7: Ensuring consistency between hard and soft infrastructure.
  - Challenge 8: Poor internal logistics and domestic logistics capacity.

- National Single Window, accompanied by automation of border processes.
  - Substantially reduced clearance times.
  - Regional model, and sometimes "exported" elsewhere(e.g., through knowledge sharing with the Kyrgyz Republic).

- Road upgrading is a continued priority.
  - Construction and maintenance.
  - Improves internal and external connectivity.

4. Questions for Discussion

- Developing internal logistics capacity: *what can be done to support private sector development in the trade logistics sector?*
  - What sort of hard and soft infrastructure environment is best suited to promoting the development of domestic logistics capacity?
  - How can policy barriers, including those to services trade and FDI, be loosened so as to support the development of domestic logistics capacity?

- Supporting cross-border cooperation: *what can be done to support increased cross-border cooperation in relation to trade logistics?*
  - To what extent, and in which areas, is cross-border cooperation desirable in relation to hard and soft infrastructure?
  - What type of national policies are most supportive of cross-border cooperation, including through liberal approaches to trade and investment in logistics services?

4. Questions for Discussion

- Sustaining integration of trade logistics markets: *how to sustain the ongoing international integration of trade logistics markets?*
  - What is the right mix of unilateral reform, regional or bilateral agreements, and multilateral negotiations, to maximize the international integration of logistics markets and thereby enhance supply chain performance?

- Green logistics: *how to balance the desire for enhanced supply chain efficiency with increased demand for environmentally friendly shipping options?*
  - To what extent should the public sector become involved in setting environmental standards for the logistics industry, and what instruments should be used?

5. Conclusion

1. Logistics is an important value chain in its own right, as well as being an important input into value chains in other sectors (e.g., electronics, and machinery).
   1. Firms need to develop backwards and forwards linkages, including across borders.
   2. Efforts to integrate logistics markets regionally and internationally should therefore be intensified, including through openness to trade in goods and services, and FDI.
2. Initiatives for cross-border cooperation on logistics should be strengthened, particularly in the case of landlocked countries.
   1. Infrastructure is often a regional public good.
   2. The regulatory environment, including border procedures (NOT just customs) and transport, also needs to be supportive of trade.
3. Policymakers need to include both the supply and demand (user) perspectives.
   1. Users include manufacturers and exporters in other sectors, as well as consumers.
   2. Ensuring a high degree of competition means that reductions in the cost of doing business are passed on to users, and are not captured by producers as rents.
   3. The reform process should be transparent, including stakeholder consultations.