

# Logistics Networks in East Asia

## For Improvement of Infrastructure & Development of Services

By Hioki Junko

In East Asia, the improvement of infrastructure for goods distribution has made rapid headway in recent years, while progress has also been noted in intraregional multinational cooperation for strengthening logistics functions. Meanwhile, expectations for logistics services are mounting fast. This article deals with the trends of distribution networks in the region, which hold a key to the integration and further development of the East Asian economy.

### 1. Expanding Logistics Networks in East Asia

#### Logistics Infrastructure Expanding in China, ASEAN

Of late, new facilities for distribution infrastructure largely affecting Japanese companies' business networks in East Asia have been completed successively between China and ASEAN and within the ASEAN region – an area where economic partnership and free trade agreements (EPAs / FTAs) have already come into force (*Chart 1*).

First, in December 2005, the Nanyou Expressway opened between China and

Vietnam. This road connects Nanning in the Guangxi Zhuang Autonomous Region with Youyixian on the China-Vietnam border, and links up with Vietnam's National Highway 1 in Youyixian. As a result, travel time from Nanning to Hanoi has been reduced from about seven hours to about five hours. The new road has shortened the distance between Guangzhou, a major hub of industrial activities in south China, and Vietnam which, with a relatively young population, promises to achieve further growth and development following its accession to the World Trade Organization (WTO).

In December 2006, the Second Mekong International Bridge opened between Thailand and Laos, completing the East-West Economic Corridor connecting four countries – Vietnam, Laos, Thailand and Myanmar. Previously, freight transport between Bangkok and Hanoi required two weeks of travel by sea. But the new bridge has made it possible to shorten travel time to only three days through overland transport. In addition, construction work is under way on the North-South Economic Corridor between Kunming in China's Yunnan Province and Thailand, and the Second East-West Economic Corridor (Southern Economic Corridor) connecting Vietnam, Cambodia and Thailand.

Many Japanese enterprises have advanced into Guangzhou and Bangkok, setting up clusters of industrial accumulation ranging from parts to finished products, including automobiles. Because of a sharp rise in workers' wages in both areas, an increasing number of Japanese firms involved are considered likely to adopt the division of labor in manufacturing processes whereby parts will be procured in Guangzhou and Thailand, and assembled into finished products in Vietnam, where wages are low. In this way, the completion of multinational distribu-

tion infrastructure has widened the possibility of developing new business networks.

#### Infrastructure Improvement in China & Logistics Networks among Japan, China & South Korea

In vast China, its logistics infrastructure, which has so far tended to be divided up, is now being integrated for mutual linkups. Under the 10th five-year plan (2000-2005), an extensive distribution network stretching east to west and north to south is being rapidly constructed as typified by the "5 zong (vertical) / 7 heng (horizontal)" project centering on expressways (slated for completion in 2007) and the "8 zong / 8 heng" project for railway construction. At the same time, the development of the Yangtze River waterway, linking major cities along the river such as Shanghai, Wuhan and Chongqing, is also making headway.

As a result, freight transport volume in China is rising year after year. Moreover, in line with a commitment made at the time of accession to the WTO, China has stepped up the opening of its distribution market to foreign countries, prompting the inauguration of advanced logistics services.

Progress is also witnessed in the establishment of a sea/land through transport network linking the distribution networks of Japan and China. As a result, a large variety of services, such as high-speed and low-cost transport, frequent small-lot transport and dedicated transport for automobile parts, have been developed by such means as the active use of roll-on/roll-off (ro-ro) vessels capable of carrying loaded trucks and trailers, the linkup of rail and marine transport networks, and the use of round-the-clock customs clearance in Japan's special economic zones. These service networks have also spread to South Korea, contributing to supporting brisk corporate activities in Japan, China and South Korea. (*Chart 2* on the next page)

**Chart 1 Logistics infrastructure in China / ASEAN**



Source : Compiled from various data by Ministry of Economy, Trade & Industry

**Chart 2 Main distribution networks in Japan, China, S. Korea**



Source : Compiled from various data by Ministry of Economy, Trade & Industry

## 2. Strengthening Functions of Logistics Networks

### Much Room for Enhanced Logistics Efficiency in East Asia

On the other hand, it has been pointed out that the cost of goods distribution in East Asia is high by international standards – about twice as much as in North America and the European Union (EU). There is also the problem of customs clearance taking too much time. This is attributed to not only a delay in the improvement of related infrastructure to cope with rising logistics needs, but also the inadequacy of relevant laws, cumbersome and inefficient customs clearance, and logistics operators' insufficient know-how. How best to address these troubles poses a common problem for East Asian countries.

### ASEAN Reinforcing Logistics

ASEAN, now pushing ahead with economic integration, is striving to ensure higher speed and efficiency in intraregional distribution through such measures as the improvement of regulatory systems and the standardization and electronic streamlining of relevant procedures in the member countries. Among specific examples are the unification of customs clearance procedures in exporting and importing countries, and the elimination of cargo transshipment procedures on national borders. In 2006, logistics was given priority in ASEAN's drive for economic integration, raising high hope that an advance toward sophisticated logistics will gather added momentum.

These moves in ASEAN are also of

immense importance for Japan, which is deepening its relations with ASEAN by promoting international business networks. Therefore, the Committee on Partnership for International Logistics Competitiveness, comprising the minister of economy, trade & industry, the minister of land, infrastructure and transport, and economic organizations, came up in December 2006 with an action plan for halving logistics cost and lead time in the ASEAN region with an eye to ASEAN's economic integration, scheduled for 2015. Under this plan, Japan will help ASEAN improve its main logistics routes, introduce a qualification system for logistics techniques and apply radio frequency identification (RFID) to logistics, among other things.

### Japan, China, S. Korea Promoting Cooperation for Efficient Logistics

Furthermore, cooperation for higher efficiency in goods distribution is also making headway among Japan, China and South Korea. In September 2006, the first China-Japan-South Korea Ministerial Conference on Maritime Transport and Logistics took place and built a framework for government-level cooperation. Then, in January 2007, a China-Japan-South Korea summit meeting produced agreement to go ahead with the construction of an efficient and seamless trilateral logistics system. Further progress is expected in cooperation for the settlement of institutional problems, such as customs clearance, the standardization of logistics facilities and the formation of a logistics information network. The three countries' cooperation will take on increasing importance for the enhancement of logistics functions in East Asia.

### Japan Seeking to Be Asian Gateway

Under these circumstances, progress is also seen in Japan's efforts to improve its logistics system. In May 2007, the Asian Gateway Strategy Council, chaired by Prime Minister Abe Shinzo, compiled "the Asian Gateway Initiative" to establish an internationally acceptable simplified and efficient system, including easy trade

procedures for commendable exporters and importers strictly complying with related laws and regulations, and even more convenient systems related to export, import, seaports and airports. This, coupled with Japan's ongoing cooperation for logistics in East Asia, will go a long way toward further deepening Japan's relations with the countries in the region.

## 3. Key Role Expected of Logistics Service Providers

Thus, East Asia is presently marked by fast-evolving moves toward the expansion and functional improvement of intraregional logistics networks. If the enhancement of efficiency makes further progress in the aspect of software, such as the customs clearance system, as well as in the sphere of logistics infrastructure, including roads, it will add to the favorable effects of the EPAs / FTAs, contributing to further progress in the seamless integration of the East Asian economy.

In this context, logistics service providers will have an increasingly important role to play. For instance, in China, which has seen the successive establishment of special bonded zones exclusively for logistics (bonded logistics zones) in recent years, logistics service providers are coming up with a wide variety of logistics models by making the most of functions allowed in these zones.

If logistics operators develop high-value-added services, such as a proposal for highly sophisticated and efficient logistics routes for international procurement, distribution and transit trade, it will not only serve to further enhance the effectiveness of already established infrastructure and relevant systems, but also arouse potential corporate logistics needs and further enliven economic transactions in the East Asian region. Accordingly, from a viewpoint of further advancing the logistics network in East Asia and thereby achieving further economic development, it will undoubtedly constitute a significant task to build a free and seamless business environment and help bring into full play the creativity and originality of logistics service providers and other industries. **JS**

*Hioki Junko is Research Officer, Policy Planning Research Division, Trade Policy Bureau, Ministry of Economy, Trade & Industry.*