

# Why Asia Needs Better Traffic & Logistics Infrastructure

By Tsuneaki YOSHIDA

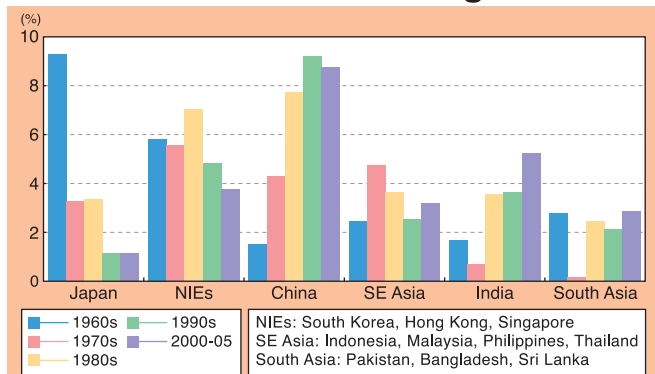
## Factors for Long-term Economic Growth in Asia

The track record of economic growth in Asian countries in recent years may even be described as signs of Asia's resurgence in world history. The revival of Asia has been shored up mainly by its open, market-oriented economy, which is now widespread in the whole region, and it is infrastructure building that has driven the regional economy in part. Japan has consistently helped improve infrastructure in Asia by providing official development assistance (ODA). The scale of foreign direct investment in developing countries depends largely on the quality of infrastructure-linked services in the developing countries concerned. Building up infrastructure spurs the inflow of foreign capital into developing countries, thereby stimulating demand for investment for more improvement of infrastructure. In this way, a virtuous cycle (sustained economic development) seems to have been created in the Asian region beyond national borders. Asian countries have become aware that they commonly stand to benefit from partnerships with their neighboring countries. Naturally, this has prompted multiple Asian countries to seek regional economic partnerships.

Chart 1 shows the growth rates of gross domestic product (GDP) per capita of Asian countries and regions. In the 1960s, it was Japan that achieved strong economic growth, followed by the newly industrialized economies (NIEs). In the 1980s, China rode on a growth path. In the 2000s, India and other South Asian countries showed signs of sustained economic growth. In short, the chart represents a "chain of growth" in Asia.

The chain has been brought about by rapid growth in intra-Asia trade as shown by the ratios of intra-regional trade (the rates of intra-Asia trade value to global trade value). Comparisons between the ratios of Asian regional trade and those of free-trade areas outside the region are shown in Chart 2. The ratio of trade in East Asia (consisting of 15 countries) increased sharply from 35% in 1980 to 55% in 2006,

CHART 1  
**Growth rates of per-capita GDP in main Asian countries & regions**



Source: World Development Index, 2007, World Bank

approaching the European Union's 67%.

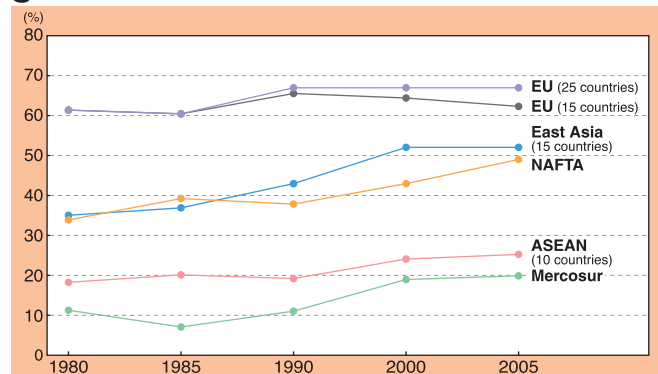
Asian countries, sharing development strategies with neighboring economies, are sustaining economic growth, propelled by the facilitated division of labor in the Asian region through the introduction of foreign capital and trade. It is the improvement of infrastructure services (water, energy, traffic, communications and so on) that is propping up this dynamism. In particular, the promotion of efficiency in transnational traffic infrastructure and logistics services is playing a decisively important role.

## Asia's Economic Integration & Common Traffic/Logistics Policies: Two Sides of Same Coin

The Association of Southeast Asian Nations (ASEAN) has taken the initiative in integrating national economies in the Asia region. It is aiming to set up a common market in 2015. The regional grouping reached a framework agreement on the facilitation of goods in transit in 1998 and another accord on multimodal transport in 2005. With these agreements in place, ASEAN has already agreed on the targets that should be achieved as well as on the main means to clear the way for economic integration. It is now seeking to introduce common traffic and logistics policies. The reality is tough, however. The World Bank's Logistics Performance Index (LPI) survey found some ASEAN members in the higher echelon, with Singapore ranked top among the 150 countries covered, Malaysia 27th and Thailand 31st. But others were at the lower end of the scale, with Cambodia, Laos and Myanmar ranked 81st, 117th and 147th, respectively. The wide difference among ASEAN members stands in the way of promoting the division of labor through the integration of markets.

Not only ASEAN but other Asian regions face a rocky path ahead in the formulation, effectuation and operation of the protocols of common traffic and logistics policies. To overcome this challenge, the governments of the ASEAN members need to work closely with the private industrial

CHART 2  
**Ratios of intra-regional trade to global trade in main free-trade areas**



Source: Asian Development Bank Institute, 2007

and logistics sectors. In the LPI survey mentioned above, the World Bank says: “The LPI suggests that policymakers should look beyond the traditional ‘facilitation agenda’ focused on trade-related infrastructure and information technology in customs. To close the logistics gap, they should also look to reforms in the markets for logistics services, reduce coordination failures (especially those of public agencies active in border control), and build strong domestic constituencies to support reforms.”

Improvement in the efficiency of international traffic networks (or building seamless traffic networks) in the Asian region has come to affect international competitiveness of not only multinational corporations but the Asian region as a whole. Making traffic networks seamless requires the introduction of common traffic and logistics policies in Asia. This should be recognized as the most important policy agenda that determines the substantive fruitage of the integration of Asian economies. It should also be taken as a task to build regional public assets in Asia and positioned as a big challenge to create Asia’s shared future.

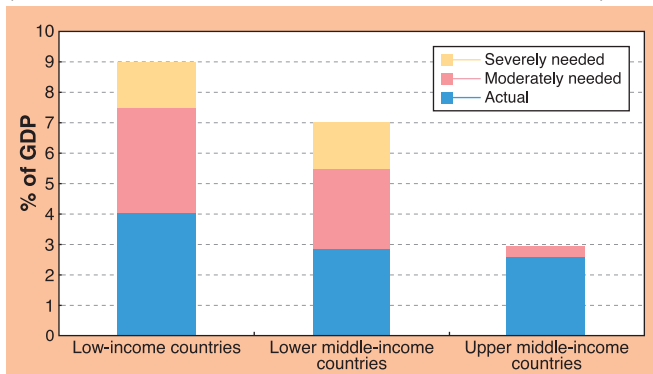
Let me call your attention here to one point: it is indispensable to carry out policy simulation in considering and implementing multilateral common traffic and logistics policies. Without verifying policy options objectively, it would be extremely difficult to coordinate the interests of the countries involved and create consensus, thus making it hard to build seamless traffic and logistics networks. To analyze regional policies, building a traffic and logistics database based on common specifications is a must. But there is currently no such database in Asia.

### Challenges for Better Infrastructure, More Efficient Logistics

According to the results of surveys conducted by the U.N. Economic and Social Commission for Asia and the Pacific (ESCAP) and other international organizations, the desirable levels of investment in building infrastructure (electric power, traffic, communications and tap water/sewerage) in the developing world are estimated at 8%-12% of GDP. As shown in *Chart 3*, the World Bank’s survey has found that actual investment in infrastructure is only a few percent of GDP, about half the desirable level. The survey results indicate that infrastructure investment cannot catch up with ongoing drastic changes in economic structures and demographic trends (economic growth and urbanization) in the developing world. The so-called “infrastructure gap” is increasingly getting serious.

Along with insufficient infrastructure investment, Asian developing countries face another serious problem of inappropriate management

CHART 3  
**Financial gap in infrastructure investment**  
(actual investment for 1990s/needed investment for 2005-2010)



Source: *Investing in Infrastructure*, Fay & Yepes, 2003, World Bank

of infrastructure, causing the so-called “vicious cycle of infrastructure.” Insufficient investment leads to the supply of poor infrastructure services, which in turn makes recipients of such services fail to pay charges. As a result, utility companies remain in the red for years and fail to set aside investment funds, giving rise to worse services. It should be kept in mind that adequate infrastructure investment and management are “two wheels of one cart.”

To break the vicious cycle, the privatization of infrastructure investment and services was advocated in the 1990s, prompted by a fall in the proportion of ODA for building infrastructure in overall development aid. The move helped spur the private sector to set aside a greater portion of its financial resources for infrastructure development. But the 1997 financial crisis in Asia poured cold water on private-sector investment in infrastructure. The private sector became hesitant as it suffered from big risks involved in infrastructure investment and management.

Stimulating infrastructure investment by the private sector requires public institutions to share an appropriate level of investment risks. It is also indispensable for the public sector to take a variety of mutually reinforcing measures to stir infrastructure demand so as to assist in infrastructure investment and management by the private sector. The public sector should not only offer hardware and software and foster human resources for building infrastructure but also proactively engage in preparing package programs involving the public and private sectors, which are expected to have synergy effects, and conducting feasibility studies.

The waterfront industrial zone in eastern Thailand that has developed into a major driving force of the Thai economy is the outcome of suggestions by Japanese experts on ODA that a deep-water port and an industrial complex be combined under a long-term comprehensive development vision. It represents the fruits of joint public-private development collaboration. The long-term vision called for construction of a variety of large-scale infrastructure facilities and development of factory sites for an industrial complex with ODA and at the same time sought to financially support systemic reforms in the fields of industry, trade and logistics by actively taking in private funds from abroad. In recent years, it has been increasingly necessary to create multinational organizations aimed at promoting and managing multilateral development projects implemented beyond national borders, and this includes cooperation and supplement among aid organizations, industrial capital and the public/private sectors in pushing ahead with systemic reforms.

Traffic and logistics infrastructure not only helps a country secure greater access to both domestic and overseas markets but assures its people of access to basic human rights such as education, culture and health as well, thus contributing to improving the quality of human resources and reinforcing social unity. Meanwhile, multilateral infrastructure crosses national boundaries, carries people, products, technologies and systems, and spreads values that should be shared by multiple countries. Accordingly, such infrastructure helps deepen mutual interdependence, thereby not only bringing about economic effects but also contributing to preventing conflicts and building peace. The recently accelerating moves to integrate regions represent a harbinger for global interdependence. Taking a fresh look at a wide array of strengths of infrastructure, it is hoped that the public and private sectors will work together to build badly needed infrastructure in the developing world from the perspective of constructing global public assets. JS

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