

# Trade and Logistics: Lessons for East Asia

Dr. David Hummels  
Purdue University

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# Logistics Research and Policy

- Academic and policy audiences are increasingly focused on logistics problems
- This talk summarizes findings from:
  - “Trends in Trade and Logistics, An East Asian Perspective” by Robin Carruthers and Jitendra N. Bajpai
  - Growing academic literature on transportation and trade issues.

# Outline

- The Benefits of Improved Logistics
- Policy Agenda: Big Picture
- Policy Agenda: Some Specifics

# The Benefits of Improved Logistics

- *“Transportation is the industry that connects other industries ... it is the key to globalization.”*

Lawrence H. Summers, Secretary U.S. Department of Treasury,  
International Transportation Symposium, October 10, 2000,  
Washington, DC

- As political barriers to integration drop, logistical barriers loom large.

# The Benefits of Improved Logistics

- Reduces price “wedge” between consumers and producers
- Insures against regional price fluctuations
- Increases product variety available to consumers
- Allows exporters to diversify geographically
- Accelerates the movement toward higher value commodities and more sophisticated manufactures

# Reducing logistics price “wedge”

- Transportation and logistics costs create a “wedge” between the prices paid by consumers and prices received by producers
- Reducing the size of that wedge:
  - Lowers prices faced by consumers
  - Raises prices received by producers
    - this raises labor demand and wages
- Evidence:
  - Across countries, poor external logistics ? low wages
  - Within countries, poor internal logistics ? high internal prices and low wages

# Reducing regional price variability

- Bad weather causes crop shortfalls and high prices in one region; other regions see surpluses, low prices
- Trading surpluses across regions provides insurance against price variability
  - Consumers in shortfall regions insured against high prices
  - Producers in surplus regions insured against low prices
- This can only work if internal logistics are of sufficient quality to facilitate shipments to shortfall regions

# Increasing available product variety

Recent work emphasizes improvements in consumer welfare and industrial productivity come from expanding the set of available product varieties

Evidence: small, remote regions import a substantially smaller set of goods

Why? Transport costs restrict available product variety

1. Price “wedge” makes goods unaffordable for most consumers
2. This reduces the shipment size below minimum efficient scale
3. Firms will not set up distribution for one customer

# Diversifying export markets

- The logic of transportation scale also causes exporters to ship to a small number of markets
- Reducing logistics costs expands shipment scale and makes a larger number of markets accessible to exporters
- This is a diversification benefit
  - Specializing in a narrow range of commodities can be dangerous because of price volatility
  - Similarly, shipping to a narrow range of markets subjects exporters to business cycle fluctuations in those markets

# Moving up the development chain

- High value agriculture, manufacturing require increased sophistication in production
- They also demand greater sophistication in logistics and handling
  - Bulk commodities can be handled roughly, arrive late, with little consequence
  - This is not true of high value agriculture, manufacturing, where timeliness is a critical determinant of comparative advantage.
- Developing logistics sophistication allows a move up a development chain
  - This relieves the “tyranny of world prices” faced by producers of homogeneous commodities.

# The Policy Agenda: Big Picture

- Domestic integration is at least as important as international integration
- Infrastructure is only one small part of logistics policy.
- Many logistics problems can be solved by changing policies that do not directly deal with logistics.

# Domestic integration first, then, international integration

- All of the benefits of improved logistics and trade listed above apply to domestic trade as well as international trade
- The most important “export” destination for producers is the domestic market.
  - International shipments are usually a small fraction of total shipments
  - Developing the ability to trade domestically is a precursor to trading internationally

# But, internal markets are often less accessible than international markets

- It is easy to send goods thousands of km abroad from major port cities.
- Reaching internal regions tens of kms away may be very difficult
  - roads are impassable
  - the scale of trade is too small for frequent shipment
- The inability to reach some regions may be of greater welfare consequence than an inability to reach foreign countries.

# Infrastructure is only one part

- Discussions of transport and logistics issues commonly begin and end by addressing the sufficiency of existing infrastructure.
- However, many problems with logistics are unrelated to infrastructure.
- There are many ways to improve logistics performance that do not require expensive capital projects.

# Seemingly unrelated policies complicate logistics

- Logistical coordination is complicated by a host of policies that appear initially unrelated to logistics.
  - Examples: urban land use, import licensing, restrictions on foreign participation
- Some of these policies exist as fixed constraints, but others may be mutable.
- Many of these policy changes are “free”.
- Key: making clear the effect these policies have on logistics costs and trade.

# A Policy Agenda

- Who takes responsibility?
- Transport Regulation
- Complementary Policies

# Who takes responsibility?

- Government planning versus market responses.
  - Which logistics needs are best addressed via government planning and which are rightly the province of private enterprise?
- Whatever direction (public v. private) is preferred, this should be made clear.
- Private enterprise will not act if government will step in.

# Transport regulation policies

- Allowing paperwork clearance for inland travel of containers
- Consolidating rail, ocean, trucking regulatory agencies to facilitate multimodal trade.
- Allowing unfettered foreign investment in transport/logistics services.
- Removing distortionary queuing priorities for commodities accessing transport system.

# Complementary Policies

- Urban land use planning – diverting traffic around congested areas; creating space for landside container storage.
- Security
- Common product standards
- Removing complicated import licensing schemes that require significant logistical hurdles to navigate