Transport, trade and tourism

27 May 2015
Tags: urban transport trade tourism infrastructure
Pravin Krishna, Chung Ju Yung Distinguished Professor of International Economics and Business at Johns Hopkins University

To mark the opening of the International Transport Forum’s Annual Summit, today’s post is by the Summit’s keynote speaker Pravin Krishna, Chung Ju Yung Distinguished Professor of International Economics and Business at Johns Hopkins University.

We live in exciting times. Globalization is deepening at a very rapid rate. In the last decade and a half, international trade in goods has nearly tripled and international tourism has nearly doubled in magnitude. Increased connectivity has led to globally fragmented production processes.

We are now more internationally connected in our economic interactions. We have a better appreciation of the peoples of different countries and their cultures through our travels. We have greater economic prosperity and a greater civilization through these interactions. A large part of this is due to the availability of transportation systems and the increased efficiency of their operation over time.

I will address three broad issues of the complex and multidimensional triangular relationship between transport, trade and tourism.

First, the crucial importance of transportation in generating economic gains, and the concerns about the effects of globalization on poverty and inequality.
Transport networks have obviously provided the backbone for the process of globalization. And, study after study has shown that improved access to transportation infrastructure can be beneficial at the local, national and the international levels. Research from the World Bank has shown that reducing delays at borders in an exporting country by 1 day, through improved trade facilitation, increases exports by 1 percent and that a 10 percent improvement in the quality of transport infrastructure would result in a 10 percent increase in trade, which suggests a very significant impact of improved transportation logistics on trade.

Going beyond the straightforward consequence of lower transport costs for trade flows; there seem to be other productivity benefits as well. For instance, following the Golden Quadrilateral project, which upgraded a central highway network in India, we observe an increase in size of the most productive firms and reduction in the size of the least efficient firms, signaling improvements in allocative efficiency in the economy.

In my own research, I have investigated a rather different set of issues concerning trade, poverty reduction and the availability of transport networks. The claim is often made that exposure to globalization may lead to greater levels of poverty and inequality. However, by looking across various regions within India, comparing regions which are proximate to ports and transportation networks with those that are not, we actually found the opposite. Without trade openness, poverty reduction is actually lower in geographically remote areas due to their lack of exposure to international markets (Krishna, Mitra and Sundaram, 2010). This is important for countries where persistent poverty is a major policy issue. Access to transport networks should clearly be an important part of equitable progress and poverty alleviation strategies.

Second, despite the obvious infrastructure gaps in transportation in large parts of the world, the question of whether to invest more in transport and in what forms, can only be answered in its specific context.

While we generally believe that there is a positive effect of infrastructure on output and productivity, it is not always the case that the benefits of additional infrastructure outweigh the costs. It is, of course, only with productive spending that value is created. Indeed, after surpassing certain thresholds in infrastructure levels, the marginal productivity of infrastructure declines. And, there is some evidence that the productivity of public capital has been declining in advanced economies. As transport networks have become more complete, the average impact of additional segments has been lowered.

Furthermore, the link between infrastructure and growth is much weaker when we measure infrastructure supply using pecuniary measures such as public investment flows. And there is a good reason for this: namely the lack of a close correspondence between public capital expenditure and the provision of infrastructure services, owing to inefficiencies in public procurement and outright corruption (Pritchett, 2000).

Evidence of waste of public resources can cost governments dearly in terms of lost credibility and trust on the part of citizens, even for well-designed projects. In rapidly
growing India, the intense struggles of the current government, which is attempting to push through legislation on land acquisition to advance its infrastructure agenda, against a backdrop of long-standing cynicism about public capital expenditure, bear testimony to this fact.

Third the nature of change is complex, and while trade and tourism have grown steadily, this has not taken place in a uniform manner.

Over the last few decades, the center of global production activity has begun to shift back from the West to Asia, and in recent years especially towards China, which has become an important venue for offshore production. But many variations and uncertainties remain. Businesses looking for low-cost export platforms in Asia are increasingly considering countries such as Thailand, Indonesia and Vietnam. Indeed, even Mexico is possibly returning back to favor for many US based manufacturers.

These shifts raise important questions.

For instance, how is freight demand expected to evolve over time? On the one hand, demand could increase dramatically due to rising wealth and rising trade. On the other hand, changes in energy prices, in trade patterns and in economic geography, could affect the origin, destination and mode of traffic, possibly decreasing demand in particular segments and modes. Are our transport networks capable of flexibly adapting to these changes in demand and usage? Are there alternative infrastructure strategies that allow both efficiency and flexibility of response to changing demand?

The demographics of the planet are rapidly changing. A decade or two from now, populations in the United States, Japan, Europe and even China are likely to be significantly older than today. This may, in turn, alter demands for tourism and transportation. However, enhancements in information and communication technologies and other trends such as the movement of aging citizens to urban, pedestrian-friendly areas may mitigate the need for changes to be made in supply. It is unclear which way this will go and by how much.

Interestingly, other parts of the world will be getting younger. For instance, it is estimated that over 30 percent of India's population, roughly 400 million people, are under 15 years of age and that, going forward, about 1 million young Indians will join the labor force each month, many in urban areas.

These are big trends and they are relatively easy to forecast. But how well do we understand the impact they will have on transportation? And how prepared are we for those challenges?

In addressing these issues, institutional gaps may be as large a problem as infrastructure gaps. Lack of co-ordination between transportation and tourism ministries, for instance, may yield mismatches in mutual expectations of both supply and demand. Similarly, with international trade, infrastructural improvements need to go hand in hand with other
behind-the-border reforms, as bottlenecks may lie as much, for instance, in poor customs facilitation, as in poor transport infrastructure.

Long range planning has an outlook of 20-30 years, but is often largely a linear projection based on current relationships between economic and demographic patterns – much like the Times of London forecast in 1894, that given the growth rate of horse carriages, every street in the city of London would be buried under nine feet of horse manure by 1950! These linear projections may be the single greatest weakness of policy making for transport today. A wide range of technological, demographic, social and economic changes will likely affect demand and supply patterns in the future.

These changes and their impacts are not as well understood as we would like. But I am sure that the collective talent of the ITF Summit audience is very well equipped to address them, today and in future research.

References


Changing World - Latest posts

Women in transport

12 June 2015
Magdalena Olczak-Rancitelli, International Transport Forum
The role of women in the transport sector is something that needs to be addressed. Women account for only 17.5% of the workforce in EU urban public transport for example, and hold less than 10% of technical and operational jobs. In the United States, women comprise only 15% of transport and related... Read more

Transport, trade and tourism

27 May 2015
Pravin Krishna, Chung Ju Yung Distinguished Professor of International Economics and Business at Johns Hopkins University
To mark the opening of the International Transport Forum’s Annual Summit, today’s post is by the Summit’s keynote speaker Pravin Krishna, Chung Ju Yung Distinguished Professor of International Economics and Business at Johns Hopkins University We live in exciting
Why should cities foster coach tourism?

26 May 2015
Nick Greenfield, ETOA - the European Tourism Association
Polis and EMTA are hosting a side event at the ITF Summit about cities and coach transport. Several European cities, such as Budapest and Amsterdam have developed strategies for coach tourism, access and routing in answer to the increasing challenges that coach tourism and travel brings. The IRU... Read more

How public transport supports business and tourism in cities

25 May 2015
Alain Flausch, Secretary General, International Association of Public Transport (UITP)
Cities are the powerhouses of the world economy. They generate more than 80% of the global economic output. The economic health of cities is thus central to global economic growth. High quality public transport improves connectivity in metropolitan areas and reduces constraints on growth, by... Read more

Sharing economy and collective transport: a level playing field is key

21 May 2015
Oleg Kamberski, IRU Head of Passenger Transport
The desire for innovative businesses to make the most of new technology is driving the economy. Current technology allows for companies to work more efficiently, offer new products to customers and create new or meet unsatisfied consumer demand. Today, people have access and the opportunity to... Read more

How to Be a Smart Freight Leader

13 May 2015
Sophie Punte (Executive Director, Smart Freight Centre) and Angie Farrag-Thibault (Associate Director, BSR)
Imagine you are the CEO of a multinational company trying to get millions of shoes, laptops, and candy bars to consumers around the globe. Your global freight supply chain is vast and complex, involving thousands of contractors who use a combination of trucks, trains, ships, and planes to reach... Read more

Long-distance freight transport - innovation for climate mitigation

6 May 2015
Francois Davenne, Secretary General, International Organisation for International Carriage by Rail (OTIF)
Innovation can facilitate the modal shift to rail, a key component for climate change mitigation. However, rail's network structure and insufficient legal and technical interoperability need to be tackled in order to achieve such innovation. In terms of interoperability... Read more

**Transforming urban mobility for a better future**

23 April 2015
Andrey Berdichevskiy, Senior Community Manager, Automotive Industry, World Economic Forum
Urbanisation, coupled with strong population growth in certain regions, will add an additional 2.5 billion people to cities by 2050, by which point two-thirds of the world’s population will be based in urban areas. As such, cities around the world will face increasing demand for urban... Read more

**Keeping the world’s top transport policy event on track**

17 April 2015
Lesley Brown, EURAILmag, The Magazine for European Rail Decision Makers
The ITF’s Annual Summit has become the must-attend event for high-level exchange on global transport strategies for the 21st century. With only weeks to go to the 2015 Summit, EURAILmag caught up with José Viegas, ITF Secretary-General, and Mary Crass, ITF Head of Policy and Summit... Read more

**Make logistics a pillar of a global sustainable development strategy!**

10 April 2015
Marco L. Sorgetti, Director General, FIATA (International Federation of Freight Forwarders Associations)
In the year 2000, the 189 member states of the United Nations set themselves eight priority objectives to be achieved by 2015. Known as the Millennium Development Goals (MDGs), they ranged from eradicating extreme poverty and achieving universal primary education to ensuring environmental stability... Read more

**Aviation’s climate action takes flight**

3 April 2015
Michael Gill, Executive Director, Air Transport Action Group
I would like you to think for a moment about the coordination it takes to get one flight into the air. From the engineers who build and maintain the aircraft, to the airline flight crews and the airport baggage handlers and ground teams, the catering staff and the air traffic management personnel... Read more

**Getting more from city tourism growth**
12 March 2015
Ruud van der Ploeg, Secretary-General, European Metropolitan Transport Authorities (EMTA)
City tourism is a thriving income source for local economies. Innovative local authorities will make the most of recent “shared economy” opportunities, from increased employment as rentals and goods’ hire boom, to technology jobs for app-makers to design better city mapping,... [Read more]

**Boost global growth through better logistics connectivity!**

26 February 2015
Nicolette van der Jagt is Director General of CLECAT
Ensuring convenient access to global trade by providing logistics connectivity is the best political investment policy makers can make. The Global Connectedness Index 2014 compiled by logistics DHL shows that emerging economies are about as globally connected as advanced economies in terms of trade... [Read more]