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## Transport, trade and tourism

27 May 2015

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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

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