Trade Logistics in Asian Countries that are land locked and resource cursed

Editors: K. Jayanthakumaran, N. Shukla, C. Harvie and E. Odbayar

Introduction

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Introduction

The purpose of this book is to provide a comprehensive picture of trade facilitation in landlocked Asian countries. Globally there are 49 land locked countries but we will only consider the 12 landlocked countries in Asia, namely Afghanistan, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan, Bhutan, the Lao People's Democratic Republic, and Mongolia and Nepal. Since these countries have no access to the sea, issues such as trade facilitation, Foreign Direct Investment (FDI), logistics, resource dependence and foreign aid present challenges to policymakers as they seek to achieve economic development. Moreover, there is an obvious lack of attention in literature to bottlenecks that must be eliminated by having these countries diversify their sources and destinations for regional and global trade, build and better manage transport and transit arrangements, and also share their experience and knowledge; in response to the acknowledged urgency of knowledge sharing an 'International Think Tank for Land-Locked Developing Countries (ITT for LLDCs) was formed in Ulaanbaatar in July 2009 in association with a United Nations Development Program (UNDP).

Central Asian countries such as Kazakhstan, Turkmenistan and Uzbekistan suffer from bad governance so they depend on exporting resources while being subjected to symptoms of the resource curse. Turkmenistan is among the top 15 gas producers worldwide while Azerbaijan and Kazakhstan export oil; Mongolia is gifted with abundant natural resources such as copper, gold, and coal which attracted more foreign investors during the resource boom during the late 2000s. Laos PDR has natural resources such as tin, gold, gemstones, and gypsum, but it is still one of the least developed countries in Asia. Economic diversification is one option for overcoming the resource curse problem, but for this to be successful better trade facilitation measures and foreign investments are needed. South Asian landlocked countries such as Afghanistan, Bhutan, and Nepal are the least developed and also suffer from backwardness in transport and transit arrangements, which is why better trade facilitation measures, economic reforms and foreign aid are necessary conditions for their growth.

Given this background and the complex nature of landlocked countries in Asia, the studies presented in Part 1 form a thematic epistemological contribution of those issues, while the

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new evidence we present covers a wide range of possibilities; Part 2 focuses on the country studies that originate from the issues discussed in Part 1.

Part 1: Economic Diversification

Economic diversification is a necessary condition and a sufficient condition to reduce volatility in resource cursed Asian LLDCs. While there is a consensus on adopting economic diversification there is no consensus on how to achieve economic diversification. Part 1 of this book sheds some light on this issue by exploring non-resource firm heterogeneity (Chapter 2), trade logistics operations (Chapter 3), trade facilitation (Chapter 4) and Foreign Direct Investment (FDI) (Chapter 5).

Charles Harvie explores the impact of resource production in a developing economy, the transmission mechanism of the Dutch disease and policy options to alleviate its effects. The Dutch disease and the resources curse concepts are not the same. Dutch disease refers a resource windfall that contributes to an appreciation of country's real exchange rate and exerts pressure on the country's lagging non-resource tradable sector. Policy makers would view the potential demise of the manufacturing sector due to this and associated de-industrialisation as being of concern due to the importance of certain characteristics and externalities derivable from the sector and that are of benefit to long-run growth and development of a developing economy. Thus, one would argue for a more interventionist approach by government ranging from piecemeal to strategic protection of key existing and new manufacturing industries. Empirical evidence on the existence of the resource curse focuses on numerous non-economic factors and remains sketchy and subject to empirical methodological weaknesses. Policy makers would view that each country faces different circumstance requiring tailored policy packages and approaches designed to best meet their individual economic, institutional and social situation.

Kankesu Jayanthakumaran, Mohammad Bari and Nelson Perera combine the resource curse and firm heterogeneity literature to estimate how a resource boom will affect firms' non-resource intensive productivity. The cost of production for the non-resource sector is high during a resource boom due to expensive non-tradable domestic currency, volatile commodity prices, and rent seeking activities stemming from economic and political mismanagement. The literature generally suggests that economic diversification leads to long term growth by generating spill over effects and increasing returns of scale, but effective economic diversification demands a greater understanding of how a group of firms behave during a resource boom. It could be argued that while low-productivity firms can improve their productivity with low cost options, highly productive firms actually experience a decline in productivity due to the high cost of shifting to other opportunities, so the net effect is a stagnation of aggregate productivity in the non-mining sector that is consistent with the resource curse hypothesis.

Nagesh Shukla and Arjun Radhakrishnan use process-centric simulation models such as discrete-event simulation to understand and improve trade logistics operations. These authors argue that most of the research conducted in the area of trade logistics improvement relies on the development of simplified flow diagrams, on-site observations and brainstorming sessions that are complemented with historic trade operations data, but these approaches have limited success in comprehensively modelling important interactions and relationships in trade logistics. The authors present a systematic methodology for multi-method simulation modelling based on the Anylogic simulation platform that logistics operations to be modelled in detail with a range of quantitative datasets. They use a simulated case of Mongolian road-based trade logistics to demonstrate how effective this proposed modelling approach is because this methodology involves, (i) capturing trade operations/process details, (ii) utilising a range of quantitative datasets for timestamping the captured process details, (iii) encapsulating processes and datasets in the simulation modelling platform, (iv) validating the resulting simulation models, and (v) visualising and processing issue identification for trade logistics.

Ramesh Chandra Paudel analyses the export performance of landlocked South Asian countries such as Afghanistan, Bhutan and Nepal by touching on the scenario of South Asian intra-regional trade. Ramesh revolves around research questions such as, why are South Asian exports so poor, and what regional priorities are needed to improve the trade performance in these regions; why do Afghanistan, Bhutan and Nepal disadvantaged; and why is the intra-regional trade in South Asia so poor? To answer these questions Ramesh uses an econometric estimation based on the gravity modelling technique where transport costs dominate and reduce the volume of trade. The results suggest that being landlocked, these countries have about a two and half percent trade disadvantage, but they could trade about 10% more than other countries if they had a better interaction with the trade facilitation index (TFI) and they could also reduce trade costs by improving the trade facilitation measure (TFM). These major trade facilitation measures are the quality of governance, transparency, documentation processing time, infrastructure, transit facilities, and information and communication technology; this estimation suggest that improving the TFM would help to reduce the trade costs and increase the volume of trade.

Nomintsetseg Ulzii-Ochir analyses foreign direct investment (FDI) in landlocked Central Asian countries such as Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan, and Uzbekistan, all of which have large mining resources. While FDI has helped boost economies around the world, it has not eliminated the main barriers and challenges faced by these landlocked countries in Central Asia, so the pioneering purpose of her study is to empirically investigate the determinants of FDI inflows such as market size, corporate tax rate, import tariffs, trade openness, quality of infrastructure, and political and socio-economic stability for the mineral rich Central Asian economies between 1996–2016. This study finds that a higher return on capital, openness, and good quality of infrastructure promotes FDI in LLDCs in Central Asia, and as expected, a decline in corruption had a positive impact on FDI, whereas the quality of regulations and the degree of business freedom had an insignificant impact on investment.

Part 2: Country Studies: Mongolia, Laos PDR and Nepal

Given the complicated dynamics involved, the chapters in this section focus mainly on the methods of economic diversification because economic diversification strategies vary from country to country. In Lao PDR, the statistics for registered enterprises show that small enterprises (1-19 employees) comprise about 99 per cent of all enterprises, so this demands an in-depth analysis of SMEs, and since Nepal relies heavily on foreign aid, this resulted in a dependency on developed nations and widening gaps in economic opportunities between rich and poor; this demanded an analysis of the sustainability of foreign aid in Nepal. Like other LLDCs, Mongolia has not eliminated the main barriers for inviting FDI, so this demands an analysis of the effectiveness of currently operational Special Economic Zones (SPZs). Thus, part 2 shows the small and medium-sized enterprises (MSMEs) as a strategy for Lao PDR and Cambodia (Chapter 6), foreign aid in Nepal (Chapter 7), and SPZs in Mongolia as economic diversification strategies (Chapter 8).

Charles Harvie argues that MSMEs play a pivotal role in the growth and development of most developing countries in terms of their contribution to business numbers, output, employment, exports, entrepreneurial activity, poverty alleviation, and economic empowerment. The share of total establishments and employment show that Lao PDR is not different from other Asian countries. This requires a new MSMEs growth and business strategy a focusing on capacity building: knowledge and skills acquisition, technology upgrading, improved product quality, innovation, and wealth creation.

Kishor Sharma and Badri Bhattaria argue that foreign aid has received a renewed emphasis since the mid-1990s, but this time with a new agenda known as 'aid for trade'. While foreign aid helps to improve growth and export performance by addressing underdevelopment, in reality its performance is lacklustre. As the debate continues, literature on the effectiveness of aid has been mushrooming, but there is no consensus. In this Chapter the authors aim to shed light on this debate using the experience of Nepal. Despite several decades of support from a donor community, Nepal's export performance has been lacklustre so it obviously needs to implement a wide range of reforms otherwise any commitment for more aid without fundamental reforms will be counterproductive in accelerating growth and improving export performance.

Tsolmon Tsagaach identifies locational choices and causes for ineffective or non-beneficial SEZs in Mongolia. Non-beneficial SEZs are associated with the land-locked nature due to borders with the Peoples Republic of China (PRC) and Russia; high concentration of natural resources offset by a lack of economic diversification; and a middle income nature with a tendency to increase real wages. Of these 4 zones which Government of Mongolia has established, Altanbulag SEZ is complete, but the other zones are still in their infancy. Altanbulag SEZ has a locational advantage because it can access the markets in East Siberia, Buriat and Irkutsk. The Russian Government is promoting investment in order to develop the Siberian regions and stop migration to the middle of Russia.

In brief, these book chapters highlight the difficulties of economic diversification due to the complex nature of landlocked countries.