THE WEB OF TRANSPORT CORRIDORS IN SOUTH ASIA

Report by ADB, DFID, JICA, WBG
Transport corridors are increasingly seen as a tool to spur regional trade and foster development.

- Countries invest in these corridors hoping to create **large economic surpluses** that can spread throughout the economy and society.

- **But** if the corridors do not generate the expected surpluses, they can become **wasteful white elephants**—transport infrastructure without much traffic.

- **And**, if any net benefits are not fairly distributed across the population, corridors risk becoming **inequitable investments**.
Corridor proposals: there are many, but resources are limited and Wider Economic Benefits uncertain

- **Many corridor initiatives** proposed or under way. (Revival of the Grand Trunk Road from Kabul to Chittagong, the Silk Road from Beijing to Brussels, or connecting Shanghai and Mumbai)

- **Huge gap** between investment needs and financing capacity. (South Asia financing needs up to $2.5 trillion in infrastructure investment by 2020, with major share of transport)

- **Tremendous risks** and forgone development opportunities if clear economic thinking—holistic appraisal methodology—is absent. (Corridors through low-density areas)
Appraisal Framework: FIT2Deeds

The Flow, the Intervention, the Typology of impacts, the 2 types of public interventions, and the Deeds of Financing and Implementation
The “Flow”: A causal link from corridor to economic benefits

Corridor interventions generate WEBs through intermediate outcomes

- Land value
- Migration
- Population
- Agglomeration
- Firm location
- Investment/FDI
- Structural change
- Productivity
- Trade

Wider Economic Benefits (WEBs)

- Economic Welfare:
  - Income
  - Consumption
  - Assets
- Social Inclusion:
  - Jobs
  - Gender
- Equity
  - Poverty
- Environmental Quality:
  - Air Pollution
  - Deforestation
- Economic Resilience

GDP per capita by district near and far from GQ, NSEW (India), CPEC (Pakistan), Kolkata – Dhaka Corridor (Bangladesh) (2011-2016)
The “Intervention”:
Program design to support a fair distribution of benefits

- **Soft Complementary Interventions**
  - (Policies and Institutions)

- **Transport and Trade Facilitation**
  - (Ports, Warehouses, Border Crossings, Auxiliary Infrastructure, Logistics)

- **Trunk Transport Corridor**
  - (Road, Rail, Waterway)

- **Initial Conditions**
  - (Geography, Population, Market Imperfections)
The “Typology” of Impacts: Organizing the multiple economic impacts into a hierarchy

Figure 6.5. While the average income grew, other benefits from GQ and NSEW were not widely shared, and environmental quality deteriorated.
The “2” Sorts of Complementary Interventions: *Policies and institutions to reinforce WEBs in design*

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<th>Achieve multiple WEB</th>
<th>Manage trade-off impacts</th>
<th>Support possible losers</th>
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<td><strong>Complementary market policies and institutions</strong></td>
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➢ How does the design of trunk infrastructure (transport and trade facilitation) impact multiple WEBs? Is it likely to generate tradeoff impacts? Are there likely losers, could they be identified?

➢ How can institutions and complementary policies be used to amplify and spread multiple WEBs, and mitigate tradeoff impacts? Which complementary policies could work best to curb the number of losers and support them?
“Deed” One: developing a financing strategy

Financing strategy:
- Assess expected revenues that could be monetized directly (fees) and indirectly (taxes), and social returns of a non-monetary nature.
- Realize social preferences may shift the sharing of funding cost between users and taxpayers.
- Devise financing strategy mobilizing: public (donor) and private capital.

Financing instruments:
- New or reallocated public spending, new public debt (market, regional pooling, concessional), grants,
- Leveraged public equity (SPVs), mobilized private equity and debt, PPPs (BOT), private co-investment.

Contingent liabilities:
- Shifting risks and financing requirements onto the private sector requires government capacity.
- If capacity is low the result can be worse (bad PPPs -> no infrastructure + bad loans).

Figure S5.5. Pakistan’s market for corridor PPPs fragmented as it expanded—and quality suffered
“Deed” Two: managing implementation

• Applying cross-sectoral expertise: Team composition for corridor (design and) implementation. (“Tiger Corridor Teams @ Gs and IOs”)

• Boosting local delivery: Local and central government collaboration to optimize administration capacity and legitimacy.

• Leveraging private sector in delivery: Engaging private sector in delivery (strong governance and administration capacity, timely and transparent tenders, clear plans and sequencing); At the grass root level, maintain regular dialog (business associations) for co-investing.

• Managing cross-border complexity: Supranational public institutions to partition, sequence, track comprehensive delivery, and enforce performance accountability. Internalizing geographical constraints of different financing sources.
Main Takeaways
1. Understand the challenge at hand before proceeding with large transport investments

- Countries invest in transport corridors to create economic surpluses. *These big investments have big opportunity costs, so be sure to avoid white elephants!*

- Often, the aggregate surpluses are not fairly distributed. *WEB are imperative for economic viability, their fair distribution is critical for the political sustainability of corridor investments!*

- Corridors can spur equitable growth only when taking spatial impacts seriously. *Look close and nearby corridors, as well as across different population groups!*
2. Focus on WEB in designing corridor programs right from the start.

- **Design for WEBs from the start.** If the design is narrowly focused on reducing VOCs, ultimate benefits may not be widely shared, tradeoff impacts could arise and, along with winners, losers can emerge.
  - Corridors can trigger economic restructuring (from agriculture to manufacturing) and leave unskilled workers jobless.

- **Manage tradeoffs.** The literature shows that WEBs are multiple and that tradeoffs in impacts on different WEBs can occur and must be managed.
  - The most common tradeoffs are between income (district GDP) on one hand, and environment (increasing air pollution) and social inclusion (not creating enough formal jobs for women) on the other.
• **Use key complementary interventions to minimize tradeoffs and support losers.** Economic benefits could be amplified and more fairly distributed with the help of complementary interventions.

  ❖ Promising complementary interventions: Improving education (vocational training in select trades and linking to established traders) and strengthening public sector governance around the corridors (administration capacity and governance effectiveness).

  ❖ Other promising complementary policies include increasing openness to foreign trade and promoting industry and trade competitiveness.

**MAP 0.6  Simulated Impact on Per Capita Household, by District, in Pakistan and Bangladesh**

- **a. Pakistan: China-Pakistan Economic Corridor**
- **b. Bangladesh: Kolkata-Dhaka Transport Corridor**
3. Appraise the potential for WEB with spatial data and reliable economic methods.

- **Avoid assumptions, use spatial data—if not available take the time to collect it.** Realize that the transport infrastructure will last for decades, one extra year to collect data is worth it.

- **Use more than one rigorous method for sound economic appraisals:**
  - **Network econometrics** could be best for appraising corridor placement.
  - **Reduced form regressions** could be best for rapidly assessing the potential for WEBs of corridors with decided placement.
  - **Structural general equilibrium modeling** could be best for capturing indirect and general equilibrium impacts on WEBs.
Multiple methods with different strengths give options:

- “rapid, low capacity” appraisals including in prefeasibility studies
- “strategic, high capacity” appraisals, and
- sequencing of more reliable (robust) methods before more efficient but risky ones.
4. Engage the private sector better, considering disparities in regional development.

- The success of a transport corridor intervention could depend on **how well the private sector and civil society organizations are integrated** into program design and implementation.

- Policy makers thus need to **ensure that the private sector understands the corridor program**, takes ownership, and is not overwhelmed by the risks.

- Data on transport corridor projects suggests that **private sector engagements have been modest in volume**, while questions arise about their quality.

Figure O.6. Private sector involvement in corridor projects has been limited
• Analysis suggests that, so far, the engagement of the private sector might not have contributed to the development success of corridor projects.

• The public sector must lead on corridors better engaging the private sector, but understanding the implication of its profit orientation, including for risk sharing.

• The private sector tends to cluster its investments around fast-developing growth centers near the corridors.

• Public investment may need to correct the ensuing disparities in spatial development, rebalancing rapid growth in corridor nodes with slow development elsewhere.

Figure O.6. Private sector consultation and involvement had low impact on the success of corridor projects (average change in ratings, and average change in nightlight intensity) and human settlement build-up
Thank you!