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Executive Summary

Special Case Study- Inner Mongolia Autonomous Region of the People's Republic of China Trade Facilitation and Logistics Development Strategy

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There are many common issues between Inner Mongolia's trade facilitation and logistics development strategy and the Action Plan of the Transport and Trade Facilitation Strategy on developing six corridors in the Central Asia Regional Economic Cooperation as outlined earlier this year by the Asian Development Bank in Baku, Azerbaijan. Inner Mongolia is landlocked and borders landlocked Mongolia to the northern region as well as Russia by a 4,221 kilometers border line and eight Chinese provinces to the east, south and west. As in Central Asia, Inner Mongolia needs to increase economic interdependence across the borders and frontiers as well as within China.

The analysis of Inner Mongolia's logistics industry reveals a strategic agenda for implementation in order to fully develop the mining, agriculture and animal product sectors of the economy. The integration of the logistics industry with the abundant human and natural resources of not only Inner Mongolia, but also Mongolia benefits long term bilateral and international economic growth for both countries. There are commonalities and complementarities in the grassland economies and cultures and in mining which provide ample opportunities for cooperation, collaboration and interdependence in cross-border trade.

The development of the logistics industry can increase the output potential in each of these sectors. At present, the low quality roads and poor capacity of rail networks and railcars hinder the development of the mining sector. The lack of modern logistics functions of information systems and refrigerated, or cold chain facilities constrains the agriculture and livestock sectors along with their downstream industries. Furthermore, these logistics and transport problems prevent outward oriented trade thereby reducing the prospects for foreign direct investment (FDI).

Recommendations and Action Plan on IMAR Logistics Industry Development

A. Legal Framework and Policy Related Actions

The PRC issued suggestions to promote the development of a modern national logistics industry in August, 2004. The statement was led by the National Development and Reform Commission (NDRC) among related ministries and associations as members to coordinate national and regional modern logistics plans. It is important that IMAR and Mongolia find a way to integrate infrastructure resources among the different departments at the local government levels and not just from the central governments so that intergovernmental agreements are implemented and transport disagreements are resolved at the borders, expeditiously.

Specific action by IMAR and Mongolia

- (a) Meet regularly to review and amend the road transport agreements to eliminate disputes on the crossing of trucks over each countries' border and not just at the central government, but also at the local government levels;
- (a) Devise a plan to form joint venture trucking firms to share transport and logistics resources for the common goal of raw materials' transportation;
- (b) Form a bilateral committee to review the TIR system for cooperation and training purposes.

Supporting role of international organizations (ADB)

- (a) Assist in articulating and documenting the problems faced by local transport providers and serve as a mediator to resolve the disputes between the local governments. Make possible suggestions for amending the road transport agreements;
- (b) Provide information on best practices for bilateral joint venture transport and logistics firms. Facilitate meetings and set agendas to bring concrete results in the short term;
- (c) Assist in organizing the meeting between the responsible departments of IMAR and Mongolia for establishing a committee to review the TIR system issues on a regular basis. Seek assistance from CRTA and the National Road Transport Association of Mongolia.

B. Improving Transport Networks and Corridors

Logistics service providers are constrained from offering services that rely on timely deliveries at a low cost. Inadequate rail and road infrastructure requires massive capital outlays to reach developed country standards. In the short term, the priority is to maintain existing road infrastructure to serve the immediate needs of mining, agriculture, and processed products transport. In the long term, the construction of new roads and rail lines based on the strategic needs of local governments and the interested industries.

Specific action by IMAR

- (a) Meet with stakeholders from key industries in Hohhot, Baotou and Bayannao'er and prioritize routes and investment requirements for road and rail transport;

- (b) Explore the creation of public-private partnerships to finance and operate transport infrastructure in cooperation with existing firms in the mining, agriculture, processed products and logistics industries;
- (c) Create databases to indicate the growing demand by each industry on the transport networks to justify priority investments. Show the need to integrate the IMAR network in the Asian Highway and Asia-Europe Rail Landbridge on a medium to long term basis.

Supporting role of international organizations (ADB)

- (a) Assist IMAR in finding capital resources for rail and road construction. Present best practices in build-operate-transfer (BOT) or similar programs found in Hong Kong, for example;
- (b) Assist in organizing meetings and agendas with IMAR, Mongolia and key industry players to map out short, medium and long term rail and road transport needs;
- (c) Facilitate meetings to find solutions to the rail gauge, quarantine and container problems encountered by the new Asia-Europe Railway.

C. Expansion at Dry Ports and Inland Depots

The existing key dry ports of Erenhot and Ganqimaodao and the inland depots of Baotou, Linhe and Jining need to expand in order to increase the value add activities required by logistics providers to serve customers. A higher value add to weight ratio of products reduces the high cost of transport to the total value of a product and thereby lessens the impact of IMAR and Mongolia's distance to markets. There are shortcomings in equipment and facilities at each dry port and inland depot that prevent the full operation of logistics functions.

Specific action by IMAR

- (a) Develop a master list of priorities for upgrading the facilities and equipment at the ports and depots based on the suggested requirements of the logistics and transport users;
- (b) Create a market demand forecast to find the short, medium and long term needs in relation to the road and rail transport construction at Erenhot, Ganqimaodao, Jining, Baotou, Hohhot, and Linhe. The forecast will include an export processing area scenario;
- (c) List potential financial resources and create public-private partnerships to finance the facilities and equipment;

- (d) Consider the following projects:
- *Ganqimaodao Port*-construct an office building and facilities for inspection, communications, electronic instruments (US \$531,645).
 - *Ceke Port*-build a warehouse center of 24,000 square meters (US \$5 million).
 - *Erenhot Port*-improve the facilities at the public bonded warehouse and build a yard to store coal.
 - *Jining*-railway terminal enlargement and new facilities and equipment in 700 mu for a logistics hub with rail and road access.
 - *Baotou*-BTICT needs equipment for loading and unloading (crane, hoist) in rail transport and for container scanning.
 - *Linhe*- logistics center: distribution and customized warehouse for fruit and vegetables.

Supporting role by international organizations (ADB)

- (a) Assist IMAR in listing the priority projects to finance for the short, medium and long term logistics industry development. Motivate public-private partnerships to finance expansion which could include concessioning at dry ports and inland ports;
- (b) Advise IMAR on modern logistics center best practices in the mining, agriculture and processed products industries. Take examples from developed country practices in Australia, Canada, the USA by organizing study-tours or for companies to visit IMAR.

D. Building Refrigerated Capacity

There is an urgent need to examine market demand forecasts for the proper location of one or two public refrigerated warehouses (PRW) in IMAR. The establishment of the PRW can serve as an important demonstration effect whereby knowledge of the “cold chain” can spread on equipment uses, management practices and food science. The transport infrastructure of refrigerated trucks, containers (reefers) with plugs and refrigerated railcars will coincide with the PRW. The development of refrigerated capacity impacts fruit and vegetable, meat, dairy, and catering businesses for intra-provincial and international trade growth as well as reduces the region’s landlocked constraints.

Specific action by IMAR

- (a) Motivate and request a market demand study for a PRW from each of the dry ports and inland depots. The study will include a survey of IMAR industries and businesses with refrigeration requirements;
- (b) Write a business plan based on the market demand study for the size of a PRW, equipment, optimal location, training needs, and capital budgeting requirements;
- (c) Investigate the possibility of concessioning the PRW in a build-operate-transfer (BOT) scenario after five years;
- (d) Request assistance from Little Sheep Catering Company, Tianjin Port Group and an ocean container liner in knowledge gathering for best practices in financial advantages, technology requirements and distribution;
- (e) Organize study-tours to the United States and take membership in the professional organizations of the International Association of Refrigerated Warehouses (IARW) and the World Food Logistics Organization (WFLO).

Supporting role of international organizations (ADB)

- (a) Provide guidance to IMAR Port office, Information Promotion office and Transport departments to establish a separate office for the development and implementation of refrigerated logistics;
- (b) Facilitate the demand study and business plan with technical assistance and mobilize financial support in building a PRW.

E. Promoting Intermodalism

Inland interfaces for rail and road modalities are important to efficient flow of bulk raw materials and containerized shipments in a modern transport and logistics network. The facilities and equipment required to move shipments from one mode to another are proper inland depot yards, cranes and truck chasses which are an extension of those intermodal functions found at Tianjin Port. IMAR enhances its inland position as a gateway to bilateral and cross frontier trade by building intermodal capacities. The transport demand from IMAR's pillar industries mandate a short, medium and long term intermodal system.

Specific action by IMAR

- (a) Gather requirements about intermodal facility and equipment requirements from dry ports and inland depots with a short, medium and long term scope of work;
- (b) Prioritize intermodal transport investment requirements for building the infrastructure at one dry port and one inland port.

Supporting role of international organizations (ADB)

- (a) Assist the IMAR Port, Transport and Information Promotion offices as well as Customs in knowing the best location(s) to position intermodal interfaces of cranes and chasses for container trucks;
- (b) Assist in planning for intermodal functions to link with the Asia Highway and the Asia-Europe Railway (Hohhot);
- (c) Assist IMAR in creating an environment receptive to private sector participation in the construction and operation of intermodal systems by guiding a bidding process or request for proposals (RFP/RFQ)

F. Building Information and Communication Technologies (ICT)

ICT software and networks can bridge IMAR and Mongolia to international markets, improve transport efficiency by instituting performance measurements and provide automation of trade and Customs documentation. The IMAR e-Port platform is a starting point to build ICT applications and an excellent means to train the logistics industry community. In addition, information can be collected for accurate trade statistics.

Specific action by IMAR

- (a) Expand and upgrade the e-Port system to include automation (Electronic Commerce) and interactive functionality. Implement the two phase approach of (1) construct a network, research and development, and user pay software system (US \$430,380) and (2) construct facilities, hardware, networks, security protection (US \$215,190);
- (b) Strengthen the *IMAR-Mongolia Network* that began with the respective Chambers of Commerce and information technology departments. Develop the networks to provide connections at Erenhot and Baotou with the other dry ports and to the inland depots in a defined time frame. Work to overcome the incompatibility of the IMAR-Mongolia (GAMAS) Customs' systems;

- (c) Explore the upgrading of e-Port to a “One Window” system by using the United Nations’ model as technical advice or the Automated System of Customs Declarations (ASYCUDA);
- (d) Initiate regular meetings by IMAR Information Promotion office with various information system plans:
 - Bayannao’er Transportation Group logistics information system
 - Tongliao Logistics Park
 - Ankuai Logistics Company
 - Baotou-Tianlin Group
 - Public Information System for farmers’ trade market

Set common objectives and platforms for interoperability to avoid conflicting and incompatible information systems;

- (e) Institute a database system for collecting trade data for purposes of statistics and performance measurements to improve management practices;
- (f) Utilize the e-Port system to disseminate logistics and transport training programs and create an awareness program to educate the logistics community that the system is available throughout IMAR;
- (g) Link the e-Port to the Ministry of Railways Transport Management Information System (TMIS) and the information technology development strategy for the sake of rail car availability and scheduling for LSPs.

Supporting role of international organizations (ADB, UN, WCO)

- (a) Assist IMAR and Mongolia in developing a plan and implementing a common platform based on UN ASYCUDA, “One Window” and/or World Customs Organization standards;
- (b) Provide advisory services and a forum to IMAR Information Promotion office on the various IMAR information system initiatives;
- (c) Mobilize financial resources through domestic and international initiatives and by international donor assistance to create public-private partnerships to finance and operate ICT applications;
- (d) Provide guidelines on benchmarking for database creation of trade statistics and transport performance indicators.

G. Trade and Transport Facilitation

The growth of IMAR's economy underscores the demand and stress exerted over the limited transport network capacity and inadequate logistics infrastructure. However, the World Bank proved in a 2006, "Doing Business Report" that infrastructure accounts for 25%, and trade facilitation, 75% of trade-related transaction costs and delays.¹ Seamless movement of raw materials and finished goods within IMAR, across borders and overseas depends on simplification and harmonization of trade, customs and transit documentation. Modern information systems provide the means to expedite processes. Better organization of the trucking and logistics industries provide the way to implement standards for more competitive costs and innovative services.

Specific action by IMAR

- (a) Institute a local and provincial trucking, logistics and supply chain council to link with the PRC council and international organizations in order to share information and industry best practices;
- (b) Construct a registration and certification system for trade intermediaries (trucking, logistics, supply chain) of IMAR and a grading systems based on the firms' facilities and resources;
- (c) Provide an open forum for the Customs' initiatives of the *China-Mongolia Customs Cooperation Expert Group* with other interested groups in attendance such as the Port office and Information Promotion office. Set a time frame to resolve and enforce changes to:
 - Inspection Results for All Products
 - Common Documents (classification (HTS) and valuations)
 - Common Information Systems Platform
- (d) Consider a dry port (Erenhot) to have a common facility to ensure inspection and approval of animal products from Mongolia;
- (e) Initiate and facilitate meetings by local governments of Mongolia and China of dry ports to discuss banking issues related to improving systems to process border transactions and to coordinate policies from the central governments. The goal is to have IMAR-Mongolia systems on equal levels of development for all financial services.

¹ "Trading on Time", Doing Business Report, Djankov, Freund, Pham, World Bank, 2006

Supporting role by international organizations (ADB, UN, WCO)

- (a) Provide advisory services and support with concrete guidelines to upgrade in a phased approach to modern trade systems. This includes linking IMAR into FIATA certification programs;
- (b) Ensure input from WCO and ADB customs experts so that the *China-Mongolia Expert Group* brings meaningful change;
- (c) Offer assistance to local governments and local branches of banks in IMAR and Mongolia on issues of letters of credit and foreign exchange forward contracts as well as other financial instruments and systems needed to conduct border trade in a secure and efficient manner;
- (d) Coordinate and advise BTICT on intermodal, refrigerated warehouse (PRW), marketing, and equipment projects in order to increase the marketability of the ICD.

H. Capacity-Building and Logistics Human Resource Development

There is a keen intent in IMAR for knowledge and structured training in modern logistics, trade and transport practices. The trade community needs dissemination of information on national logistics policy, TIR, tools to measure logistics performance and data automation to name a few.

Specific Action by IMAR

- (a) Utilize the e-Port to display information on training programs and develop the interactive technology for conducting on-line training programs;
- (b) Structured training classes to industry specific logistics requirements (i.e. mining, agriculture, processed products, refrigeration, freight forwarding, Customs, intermodalism);
- (c) Seek assistance from established logistics training providers such as FIATA and the World Bank/UN Global Trade and Transportation Facilitation (www.gttf.org), or from private industry sources.

Supporting role of international organizations (ADB, World Bank, UN)

- (a) Provide assistance in establishing a structured and routine training programs to the trade community and government officials as well as inform on sources of financing of training programs;

- (b) Assist in developing relations with international organizations and the available on-line training systems;
- (c) Contact the United States based: “Cochran Program” (U.S. Senator Cochran) about the food industry professionals’ training of developing nations in agriculture best practices. Refrigeration logistics practices are included.