

ICPS newsletter

Transport modernisation will foster economic growth

In 2001, the volume of output in the transport sector increased by 1%, while in 2000 this indicator stood at 2.4%. Such growth rates in the transport sector are lower compared to the overall economic growth in Ukraine. This fact testifies to significant unrealised demand for transport services, since the available supply does not meet the demand by the efficiency criteria. Overcoming this lack will demand hefty investments in equipment and infrastructure. In the meantime, creating seamless infrastructure to facilitate transport is an important factor of rapid and durable economic growth. The research report on the transport sector was offered in January issue of ICPS's Quarterly Predictions journal

Creating a seamless infrastructure to facilitate transport services is an important factor of rapid and durable economic growth. The development of transport service infrastructure generates the following economic benefits: firstly, curtailment of producers' expenditures; secondly, enlarging both external and domestic trade; thirdly, increasing revenues from providing transit services; and fourthly, attracting investments and creating jobs in the transport, construction, and service sectors.

The European Union dedicates a lot of attention to the development of transport infrastructure. Countries applying to join the EU have to ensure that transport standards (in particular, safety standards) conform to those of the EU. Under the condition of accomplishing this task, these countries will be able to compete in the European market. Over 1990–1998, countries aspiring to join the EU were given technical assistance in the amount of nearly 1 billion euros to enforce European standards in the infrastructure sphere.¹

Due to its antiquated transport system, Ukraine's economy fails to generate opportunities of earning more profits. For instance, according to estimates of the World Bank, due to the lack of a strategy of modernising transport corridors, Ukraine

¹ This data corresponds to 17% of the total money volume granted by PHARE (a program of technical assistance offered by the EU to countries qualifying to join the EU).

sustains losses of \$400 million annually. These losses include additional jobs not created and profits not received from exports of goods and services. The need for transport modernisation in Ukraine is largely triggered by the following circumstances:

- In the Soviet times, transport was mostly engaged in shipping raw materials and semi-finished products. Now, the same system has to transport high-quality commodities, which are continuing to improve. Meantime, the available infrastructure is unable to guarantee the

preservation of quality during transportation;

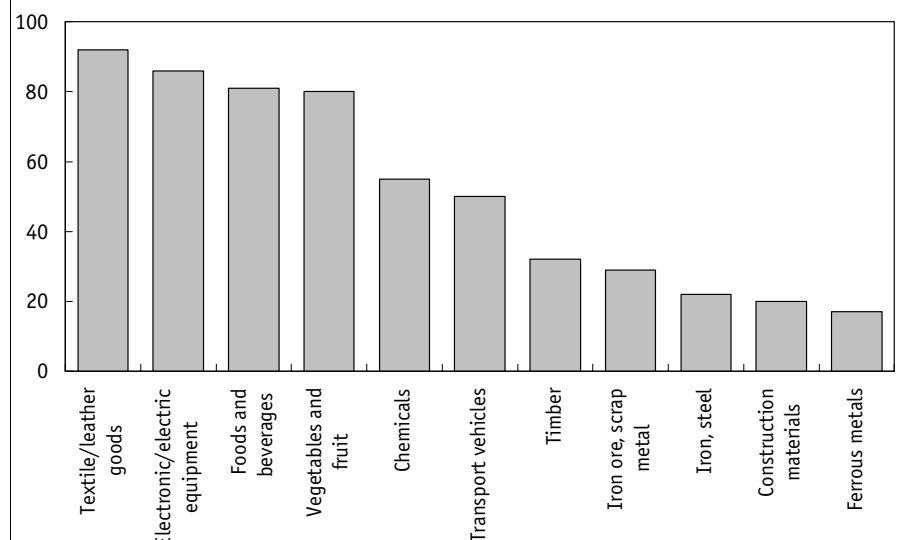
- The transport infrastructure is dominated by railway transport, while the infrastructure for trucking is still nascent;

- In the USSR, the transport infrastructure was oriented in the south-north direction. Currently, the east-west road infrastructure requires development. In view of this fact, the TRACECA project—whose mandate is to create a transport corridor between Western Europe and Central Asia via the Black Sea, the Caucasus, and the Caspian Sea—is quite auspicious for Ukraine. The Ukrainian part of this corridor will traverse the port of Odessa.

In case of delays in the modernisation of the transport system, Ukraine's competitiveness in international markets will continue to diminish, and domestic producers will incur losses due to inefficiency. In our opinion, the modernisation of the Ukrainian transport system should include the following changes:

Potential of utilising the modular transportation system

% of total volumes that can be shipped in containers



Source: World Bank.

Next week's events

On **18 February 2002**, at 5 p.m. a training seminar on **"Development of analytical documents: Consultations during policymaking"** will take place at ICPS. The seminar will be run by Paul Brown, Professor of Public Administration, Dalhousie University, Canada, and Senior Advisor to the project "Network for Policy Development in the Government of Ukraine".

On **19 February 2002**, a seminar on **"Public administration reform: Canada's experience"** will be held at ICPS. David Elder—Senior Advisor at the Privy Council Office of Canada (an institution that is the counterpart to the Ukrainian Cabinet of Ministers' Secretariat) will chair the seminar. He has been with the Privy Council Office since 1993, where he has held office of Deputy Secretary of the Cabinet; he is in charge of the structure and functioning of the government apparatus as a whole and its separate institutions, supervising the government's effectiveness and whether its deeds accomplish the priorities promulgated by the Canadian Prime Minister.

On **22 February 2002**, a seminar on **"The role of the government secretariat in the process of policy coordination: French experience"** will take place at ICPS. The seminar will be led by Jacques Fournier,—a member of the State Council of the French Republic, chevalier of the Legion of Honour. Formerly, M. Fournier held the office of General Secretary of the Government and Deputy General Secretary of the Presidential Administration of Francois Mitterand. Later, he presided over the national association of railways and the state-owned enterprise "Gaz de France." He is the author of scholarly papers on social problems, political struggle, and institutions, the power of the social, how the government functions, and others.

On **23 February 2002**, Paul Brown, David Elder, and Jacques Fournier will hold **a joint seminar** at ICPS.

These seminars comprise part of the project "Network for Policy Development in the Government of Ukraine", which is a joint initiative of the Cabinet of Ministers of Ukraine's Secretariat and the International Centre for Policy Studies and is carried out under the framework of the Policy Advice for Reforms (PAR) project of the Canadian Bureau for International Education (CBIE), funded by the Canadian International Development Agency (CIDA).

If you wish to register to participate in the seminars, or obtain any further information, please contact Andriy Bega at 463-5967, 462-4937/38 or via e-mail: abega@icps.kiev.ua.

- The reconstruction and construction of roads, whose quality and safety conforms to international standards;

- The development of a modular transportation system (cargo shipment in containers by different means of transport, e.g., railway and motor vehicle). This system allows to select the most optimal route of delivering freight. The modular transportation system requires the construction of special terminals for temporary storage and transshipment of containers;

- Expansion of the system for providing additional services that would include filling stations, technical service stations, parking stalls, and vehicle service networks;

- The transport system computerisation (specifically, electronic document

circulation, electronic system of tracking shipments).

Modernisation of the Ukrainian transport system is impossible without cooperation between the state and private sectors. In order to arrange such cooperation, government policy should pursue the following goals: (1) creation of beneficial conditions to stimulate competition in the sector; (2) reducing barriers to entering the market; (3) commercialisation the activities of state-owned enterprise; and (4) privatisation of certain enterprises. ■

For further information, please contact Tetiana Sytnyk, tel.: (044) 463-5966. More detailed information on ICPS economic research is posted at www.icps.kiev.ua.

If you wish to subscribe to Quarterly Predictions journal, please contact Yevhenia Yehorova, e-mail: marketing@icps.kiev.ua.

Decelerated growth rates

According to our calculations, in 2001 the volume of output in the transport sector increased by 1%, while in 2000 this indicator stood at 2.4%. The deceleration was mainly triggered by the slowed growth of goods turnover in rail cargo as a result of limited exports. The highest growth rates of last year were in goods turnover in trucking (this indicator reached 10.2% in January–November 2001), since the domestic demand increased.

The growth rates in the transport sector are lower compared to the overall economic growth in Ukraine. This fact testifies to significant unrealised demand for transport services, since the available supply does not meet the demand by the efficiency criteria.

A survey conducted by the World Bank reveals that in Ukraine, operational costs (in particular, pertaining to transport) related to external trade in 1997 comprised 18.2% of the total volume of external trade. The similar indicator for European countries stands at 8–10%. World Bank experts assessed inefficient transport expenditures in Ukraine in 1997 at \$1,682 million.

Overcoming this discouraging happening will demand hefty investments in equipment and infrastructure. Whereas the sources for such investments are limited, the lack of equilibrium between demand and supply will remain, and therefore, the growth rate in the transport sector will continue to lag behind the overall economic growth rate.

We predict that the relative weight of the trucking industry will augment, following world trends. The following circumstances will foster this process:

- *More stringent requirements to maintaining the quality of consumer goods: the degree of processing in goods, particularly, imported ones, is rising, and hence, there is a need for their more careful transportation;*

- *The network of automobile roads is more extensive than that of the railways, thus, trucking is able to guarantee shorter delivery terms;*

- *Unlike railway transport, trucking does not require frequent transshipment of goods;*

- *When expanding their distribution network of consumer goods, enterprises will primarily rely on automobile transport.*

However, the poor conditions of the road infrastructure in Ukraine stand in the way of boosting the efficiency of trucking transportation. Moreover, increasingly intensive use of highways will further necessitate the urgent reconstruction of roads. If highway modernisation is deferred, producers will sustain losses caused by time losses and deteriorated goods quality.

ICPS Newsletter is a weekly publication of the International Centre for Policy Studies delivered by electronic mail. To be included in the distribution list mail to: marketing@icps.kiev.ua.

ICPS Newsletter is published by the ICPS Publications Group.

ICPS Newsletter editor Maksym Mashliakivsky (mmax@icps.kiev.ua)

English text editor D. (Ksenia) Ovcharenko.

Articles may be reprinted with ICPS consent.

Address: 8/5 Voloska Street, Kyiv 04070, Ukraine

Phone (380-44) 462-4937/38/48. Fax (380-44) 463-5970

Web-site: <http://www.icps.kiev.ua>