Partnering to Meet Australia’s Logistics Infrastructure Challenge

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The miraculous narrative of China’s success as a country that has dragged itself from a third world status to today’s economic powerhouse, has been the greatest most awe-inspiring economic success story of our generation. Since the 1990s China quadrupled its 1 million kilometres of highways and built a high-speed rail network from scratch, which it plans to extend to 30,000 kilometres by 2020. The sheer size of the stations, their efficient management and the fast trains that run up to speeds of 300 kilometres an hour are a testament to China’s extraordinary infrastructure build over the past two decades which has become representative of the country’s rapid economic development and improved living standards across the country.

This achievement has been copied by other emerging economies, such Singapore and Dubai. They share a commonality as their dictatorial governments employ long-term strategy views, devoid of the restrictions imposed by the short election cycles of Western democracies. This affords them the ability to formulate long-term plans, rather than the drawbacks of short-term election cycles which divide world democracies such as America and Australia.

The Chinese government can afford an expansive certainty of governance and policy direction that spans decades, not the few years allowed by a political term. They can make the tough, unpopular decisions independent of populist support. China can, therefore, afford to invest in infrastructure as a key driver of economic growth, not just to fix short-term problems. This investment in infrastructure is protected by a $US 3 trillion in foreign currency reserves, which China was able to accumulate over its 30 years of export success. Whenever exports slow, the Chinese bolster economic activity by investing in infrastructure. In this way, they can continuously maintain a steady level of economic growth.

Since the end of 2007 and the onset of the GFC, the Renminbi (RMB) has appreciated considerably against a range of major currencies. This has, in turn, strengthened the purchasing power of Chinese investors, as overseas investment has become relatively cheaper.
One Belt One Road

In keeping with their long-term view, China’s “Belt and Road Initiative” is the most ambitious strategy ever to be undertaken. This underlying ambition behind the “Belt and Road” is to build better trade routes, including infrastructures such as roads and rail networks, between Asia, Africa and Europe so they can raise 850 million Chinese, or one-eighth of the world’s population, into the middle class by 2030.

The Chinese government has called on countries along the proposed routes to establish a secure and efficient network of land, sea and air passages, lifting their connectivity to a higher level. A staggering US$3 trillion ($4 trillion) in foreign currency reserves, accumulated during more than three decades of China’s stunning export success will fund the project. Already examples of China’s infrastructure success with the “Belt and Road” abound. From a new deep water port in Kenya to railways throughout East Africa and roads and hospitals in Guinea-Bissau. The figures are vastly unfathomable, with the Export-Import Bank of China financing trillions in financing, including direct investment, soft loans and commercial loans.

The amount of money invested into Asian infrastructure between 2015 and 2025 will be worth about 60% of the world’s infrastructure spending. According to PwC and Oxford Economics, in roads alone, the Philippines, aided by Chinese investment, will increase its infrastructure spending by about 300% between 2010 and 2025, and China about 250%. In fact, many countries in Asia, in particular, seem to be competing for Chinese investment.

Projections by the OECD suggest that Asia’s share of the global middle class will grow from around 35% in 2015 to 80% by 2050. The result is that the long-term strategic partnership with China is fast pacing the development of the Asia market compared with Australia.

While the Australian economy is attractive, it is losing its market share due to lack of infrastructure investment. Australia’s solid economic performance, a diversified economy and low-risk environment bode well for business, with 26 years of uninterrupted economic growth and a AAA sovereign risk profile. Australia is well placed, as even though it is home to only 0.3% of the world’s population, its GDP accounts for 1.7% of the world’s economy. However, the imposition of short-term policy windows as a result of changing governments and lack of bipartisan support, means that investment in infrastructure has suffered. The political landscape only allows for a horizon of 3 years between elections (in recent times even less). Policy direction and investment vacillates severely every few years with the rise and fall of governments. As a result, there is a long-term neglect of significant asset investment and a lack of cohesion and strategy in infrastructure management.

According to the Australian Bureau of Statistics, China now ranks as Australia’s fifth largest investor with 4% of investment stock. It sits behind the United States (24%), the United Kingdom (13$), Japan (10%) and the Netherlands (6%), equal to Singapore (4%) and ahead of Canada (3%).

Mining remains on China’s investment agenda. A total of AU$1.29 billion was invested in the sector in 2015. This makes the Australian infrastructure sector attractive to Chinese investors, with recent ventures including the 99-year lease of the Darwin Port to the Landbridge Group for AU$506 million. The port acquisition followed Australia’s first investment as a country in over a century of over $1.3bn in a railway linking South Australia and the Darwin port which was first planned more than a century ago. While many critiqued the project within Australia, it was ground-breaking in terms of the extent to which Government was able to incorporate private sector financing.

While such investment by the Australian government is impressive, it comes nowhere near development opportunities. Hands Up Kenya in launching its flagship conference series, starting with an inaugural event in March, 2018 in Nairobi. Each event will feature a variety of leadership and professional development opportunities such as workshops, speeches, an on-site career fair and networking events. Through these events and platforms, the initiative aims to promote tools and approaches that have been proven to elevate standards of living, promote business creation, build robust communities and empower youth to grow and fulfil their potential.

UPCOMING EVENTS

LogiSYM Dubai 2018
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Dubai, UAE

LogiSYM Dubai 2018 brings together over 300 people across a variety of practices and professions. Who should attend? Anyone in Logistics & Supply Chain working to: put an idea into action, get inspiration from industry leaders, connect with potential collaborators, manage an effective team, or understand the trends affecting the future. If you want to be prepared for the changes in the supply chain industry, then you need to be at LogiSYM Dubai 2018!

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that of China. This may be why the country was not included in initial versions of the One Belt One Road Strategy when it was initially announced in 2013, even though Asia presently represents 10 of Australia’s top 12 export markets. There is an urgent need for investment and a comprehensive National Freight and Supply Chain Strategy to guide infrastructure investment and reform, if Australia is to realise its place as a competitive Asian Trade Partner.

Mark Birrell is the chairman of Infrastructure Australia, and he says that greater foresight will be essential when it comes to infrastructure planning in order for Australia to have a thriving economy over the long term.

“Infrastructure has to be developed and planned with a long-term focus”, he says, “Avoiding the problems of previous election campaigns where projects were developed in isolation and the needs of infrastructure users gained little publicity.”

Australia’s infrastructure problems are only going to increase.

**Road Freight**

As a major producer and exporter of bulk commodities and other merchandise, Australia expects road freight to grow by 50% and rail freight to increase by 67% to 2030. Rail freight growth is driven by continued growth in mineral and agricultural exports, and demand for consumer goods driven by population growth.

Domestically Australia is experiencing unprecedented population growth with the country on target to expand to more than 30 million people by 2031. This will mean that the population of Australia’s four largest cities, Sydney, Melbourne, Brisbane and Perth will increase by close to 50%.

Total domestic land freight is expected to grow to service this population by 80% between 2011 and 2031. As favourable as this sounds, such rapid growth may result in increasing major transport disruption and delays if there is not an equal investment in land freight infrastructure. It is critical that this is addressed as the annual cost of congestion in capital cities could exceed $53 billion by 2031, up from $13.7 billion in 2011.

Domestically, the majority of economic activity occurs in the country’s major cities, according to the Australia Infrastructure Audit, which found they contributed $854 billion to the economy in 2011 and are projected to add $1,621 billion in 2031. Investment and reform are therefore desperately needed to increase capacity and better manage domestic demand. The Australian Logistics Council has estimated that the logistics industry contributes close to 14.5% of GDP annually. Spending on infrastructure in this area will, therefore have a compounded benefit on the Australian economy.

**Rail**

The percentage of freight carried on rail is static or declining as far as Australia’s capital city ports are concerned. This is juxtaposed with the well-documented projection that the freight task is expected to double in the next twelve years or so. As a result, congestion is set to cost $20 billion by 2020 if no action is taken and, according to the latest ABN Amro report, between $380 billion and $455 million will have to be spent on public infrastructure over the next 10 years.

**Shipping**

Australia is not prepared to cope with these challenges with major container terminals, for example in Melbourne reaching capacity. In the next decade 6,000 TEU container ships will be calling into Australia compared to the current levels of 4,500 TEU vessels at Australian ports. This growth will challenge the current decline of general cargo and standard user berths

The rise of eCommerce has created a dramatic shift in the landscape for 3PLs, manufacturers and retailers in Asia-Pacific. Next day delivery, full visibility and product customization are now standard expectations from both B2B and B2C customers. This fact has made it imperative for distribution and warehousing strategy to adapt. Increasingly, companies are innovating and embracing digitalization to broaden or defend their market share.

The 4th Asia-Pacific 3PL & Supply Chain Summit brings together leaders in logistics, supply chain, manufacturing/retail and eCommerce throughout the region. Over 200 attendees choose to make this high level gathering their primary event for addressing the key challenges that face the increasingly dynamic supply chain and logistics industry.

[https://events.eft.com/3pl-asia/](https://events.eft.com/3pl-asia/)

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In many capital city ports, even though shipping is by far one of the most environmentally friendly forms of transport on a per tonne-kilometre basis.

The amount of freight carried on rail is static or declining in capital city ports. Upgrading the logistics chain between port and rail, as well as developing better handling facilities at the berth are vitally necessary and overdue. Investing in ports is the critical means of participating in the region’s wider growth.

The opportunities and challenges are clear.

To meet this need Australia is leading the world in the way it engages with private sector investment to fulfill major capital works. The Australian Government has committed over A$50 billion for current and future infrastructure investments for the period 2013–14 to 2019–20 onwards to address the improvements required for Australia to remain competitive. This investment is combined with contributions from government and the private sector. If the country does not rapidly catch up with the advancements being made by its competitors in the Asia Region, who have already partnered successfully with Chinese investors to create more efficient price points and services, it will lose its market standing in the region. There is some debate as to whether Australia can close the gap in time to meet the rate of demand in the Asia Region.

In its 2016 report, Infrastructure Australia stated that by 2031, Asia would represent about two-thirds of the world’s middle-class population, creating a massive demand for Australian produce and skills. If Australia is to take advantage of this growth, it needs to be infrastructure ready.

Partnering to meet the Gap

As an island nation, Australia is dependent on well-functioning seaports and airports to trade with the world. Its economic competitiveness is closely linked to the quality of its national supply chain infrastructure, its ports, railways, roads and airports. They connect Australian goods and services to domestic and overseas markets.

The increasingly wealthy and demanding consumers in countries such as Japan, the Republic of Korea, Singapore, Malaysia, Thailand and China want high-quality products, including fresh produce, as quickly and as cheaply as possible. This offers a great reason for countries such as China and Australia to unite for mutual gain.

It is hoped that in the future a partnering between China and Australia will forge a mutual advantage to meet the service requirements of these new consumers. Such a collaboration would enable Australia to fund its gap in logistics infrastructure and overhaul these at a pace that would ensure it is ready to take advantage of the stratospheric opportunities that lie ahead in a growing market, while China would benefit from a solid source of investment return.