

Trade

The Problem

India's current shares in global merchandise trade, and exports, are only 1.9% and 1.6% respectively. Maintaining the current rate of GDP growth (7 percent plus), or shifting to a higher trajectory, requires India to expand its share in global trade and exports, as economic activity generated by the domestic market would be insufficient for maintaining the growth momentum in the long-run.

Enhancing India's share in global trade is contingent on its exports becoming more competitive. Domestic factors have been major determinants of India's export competitiveness. These comprise factors influencing competitiveness at borders as well as beyond borders. The former includes efficiencies of ports, particularly their abilities to expedite movement of container cargo, while the latter include linkages between ports and their hinterland that impact transport costs of inward and outbound cargo.

Andhra Pradesh (AP) is one of the top five exporting states of India. It occupies a leading position among Indian states in production and export of marine products, agricultural commodities and textiles. The emphasis connects to the state's overall strategy of coast-led industrial development by utilizing its natural endowment of the longest coastline in India. AP has embarked on a fresh new long-term growth and development strategy with strong emphasis on 'globally competitive exports'. Further the state's strategic vision is on coast-led industrial development. Moreover, in the objective of coast-led economic development and Andhra's prominence as a major exporting state there is need for centrality of exports.

The paper analyses feasibility of three policy interventions for implementation in Andhra Pradesh for enhancing the competitiveness of its exports. Connecting to the ongoing coastal economic development strategy of the 'Sagarmala' project of Government of India, the interventions include development of an export-oriented apparel park; modernizing an existing port and linking it deeper to hinterland; and establishing facilities for certifying quality standards of seafood exports.

Solutions

Interventions	BCR	Total benefit (INR crore)	Total cost (INR crore)
Scientific testing and certification facilities for marine product exports	7.9	346	44
Development of an export-oriented apparel park in a Coastal Economic Zone (CEZ)			
Scenario 1	2.4	46,461	19,235
Scenario 2	12.4	237,726	19,235
Scenario 3	14.7	282,338	19,235
Modernizing port facilities and improving hinterland connectivity	0.9	1,695	1,985

Total costs and benefits are discounted at 5%

The full paper by Dr. **Amitendu Palit** of the Institute of South Asian Studies (ISAS), National University Singapore, is available on www.appriorities.com/economy-business-and-industry.

Development of an export-oriented apparel park in a Coastal Economic Zone (CEZ)

The Problem

India is developing coastal economic zones (CEZs) under the ‘Sagarmala’ project. It aims to improve national export competitiveness by developing ports close to manufacturing hubs, reduce cost of transporting domestic cargo by enhancing transport connectivity, bring down logistics cost of bulk commodities by developing capacities close to coast and reduce time for container movements.

AP is a key state in the long-term perspective vision of Sagarmala. This is natural given the port’s long coastline, good export performance and further potential for high export growth. Out of the fourteen CEZs planned under Sagarmala, two are being developed in AP.

The Solution

The intervention visualizes construction of an apparel park over an area of 2000 acres with the facility dedicated primarily to exports. The objective of the park would be to enhance exports from Andhra. The park will be located in an upcoming CEZ in Andhra under the Sagarmala initiative.

The two proposed CEZs in Andhra are the Visakhapatnam Chennai Industrial Corridor (VCIC) –Central and North, respectively. Out of these, the apparel park is being conceived as part of the VCIC North, which would be linked to the Vizag port, and would have apparels as one of its core industries.

Costs

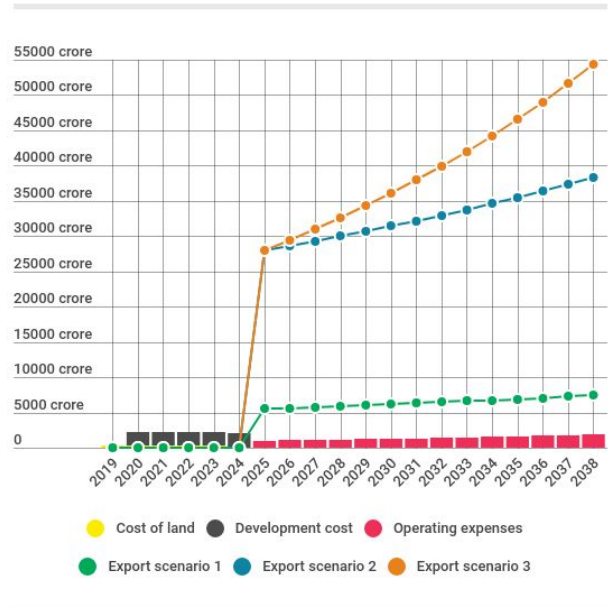
Fixed costs comprise cost of purchasing land and its development for over 5 years and variable costs include operational expenses. Total costs during the first six years of implementation are aggregate of land purchase and development costs and comprise operational costs thereafter. The total cost for the intervention is estimated to be INR 19,235 crores.

Benefits

The success of the initiative will be judged by exports generated, as well as the new economic activity created through positive spill over in terms of new livelihoods, growth of ancillary industries, and urban and retail development in the surrounding areas. The

benefits are estimated under three distinct scenarios, based on the evidence from performance of India’s current SEZs, those envisaged in the Sagarmala perspective plan, as well as more robust anticipation of export and spillover benefits from international evidence.

Coastal economic zone 2019 - 2038



The conservative scenario estimates benefits equivalent to INR 46,461 crores which is a conservative calculation of benefits on the basis of evidence of India’s current SEZs. Under second scenario the benefits are equivalent to INR 237,726 crores. The third scenario employ robust assumption for benefits mainly on the basis of performance of SEZs in China and rest of Asia. The estimated benefits under this scenario are INR 282,338 crores.

Modernizing port facilities and improving hinterland connectivity

The Problem

The competitiveness of ports is dependent on their connections with the hinterland. Seamless connectivity helps in faster movement of cargo leading to lower logistics costs for exporters and all other actors involved in maritime trade. The lack of good connectivity with hinterland affects competitiveness of

Indian exports through high logistics costs. Such connectivity not only facilitates quick movement of cargo, but also encourages more containers to use the well-connected ports and increases the flow of maritime traffic. Building new ports and improving existing ones, while developing strong linkages between the ports and the hinterland, is integral to Sagarmala Initiative.

The Solution

The intervention seeks improvement of existing port facilities and enhancing its connectivity with the hinterland. These are envisaged for a non-major port on the Andhra coast and as part of the broader developments under Sagarmala Initiative. The key objective is delivering a port equipped with modern state-of-art facilities that significantly enhance its maritime traffic handling capacity. At the same time, backward linkage of the port with the hinterland is developed for enabling fast movement of cargo and overall reduction in logistics costs.

Usually, port-led development, including hinterland connectivity in India, has relied on public investments. But this project can be a collaborative venture between state and private agencies.

Costs

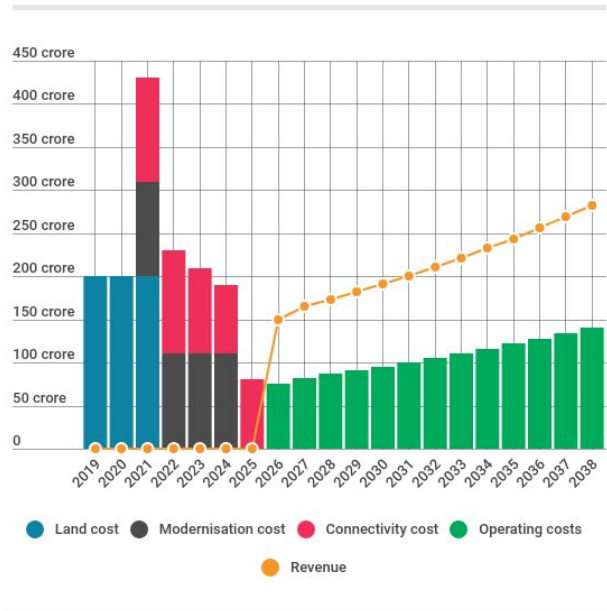
Fixed costs comprise cost of acquiring 1000 acres of land for developing new facilities at the port and upgrading current ones. Modernisation costs are considered separately, while connectivity improvement costs, again part of the overall fixed costs, also include costs of additional land that might be required for expanding highways. Operating expenses are also factored in the total cost. All activities are assumed to be completed within seven years with a gradual reduction in fixed costs as activities progress. The total cost calculated for this intervention is INR 1,985 crores.

Benefits

Benefits are computed on assumed increase in port capacity by 20 million tonnes per annum. Further computations look at a non-major port in the state like Gangavaram in Visakhapatnam, its installed capacity, volume of cargo handled and the capacity utilization rate, which is below 50% for 2015-16. It is expected that capacity utilization for our port to improve following modernization and connectivity improvement and are optimistic of reaching 75%.

Further it is assumed that an initial increase of 20% in revenues from their current levels will result due to this intervention (followed by 5% each year). The total benefits calculated are expected to be equivalent of INR 1,695 crores.

Port with hinterland connectivity 2019 - 38



Scientific testing and certification facilities for marine product exports

The Problem

Fisheries and marine products are among the most significant export resources of AP. The state is the largest fish producer in the country and is aiming to be the fish processing and export hub of the country. The State’s Vision Document highlights the intention of boosting revenues from fishery exports and establish mechanized processing, packing and quality control measures for enhancing exports. AP aims of becoming an ‘aqua hub’ for the world, marine product exports, particularly prawns and shrimps, are expected to contribute significantly.

Specific studies on seafood exports from India point to the difficulties encountered by these exports from progressive tightening of safety and quality standards in various industrialized country markets, particularly

from differences in conformity assessment procedures in domestic markets and abroad.

The Solution

The intervention comprises establishing a laboratory equipped with latest scientific testing facilities for certifying quality standard of seafood exports from AP to the US, EU, Northeast Asia, Southeast Asia and Middle East. The laboratory will greatly enhance prospects of seafood exports because in absence of certification ensuring compliance with global quality standards, exports would not be able to access major global markets.

The new certification facility would encourage a part of seafood production currently targeted at the domestic market to divert to global markets as exports. The facility will be in addition to similar seafood certification facility at Visakhapatnam.

Costs

Fixed costs comprise land and building and laboratory & equipment. The Food Safety & Standards Authority of India (FSSAI's) cost assessments for upgrading state food laboratories are benchmarked for computing costs of laboratory and equipment with the estimates upgraded by a multiplier of 25 percent. Operational costs are also factored into the overall cost for this intervention. The cost for this intervention is estimated to be equivalent of Rs. 44 crores.

Benefits

Additional exports generated by the facility, and the revenue fetched therefrom, are based on the benchmark of current estimates of seafood exports from Visakhapatnam and Krishnapatnam ports for the year 2017. An initial increase of 2% by volume,

following substitution from domestic markets to exports, would fetch additional export revenues from higher price of seafood in international market.

These exports would be triggered by a price differential of 25% between domestic market price and international price. Driven by large share of frozen shrimps in the export basket, export revenues are expected to increase annually by 2%, since shrimps enjoy the highest price premium in global markets among all seafood exports. Therefore, the intervention is estimated to bring the benefit of INR 346 crore.

Marine export certification 2019 - 2028

