



Confederation of Indian Industry

Stimulating India's EXIM growth by reducing costs of trade





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Knowledge Partner



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The value of trade

Making trade more efficient can be a source of value for the Indian economy. This study puts numbers on the potential for growth.

India – the world’s fourth-largest economy – is poised for growth. The World Bank estimates that India’s GDP growth will reach 7.6% in 2016–17. Country’s high growth rates since 1991 have been accompanied by impressive social improvements: life expectancy has more than doubled, literacy rates have quadrupled, health conditions have improved, and a sizeable middle class has emerged. Still poverty remains widespread and profound with **average GDP per capita in 2014 less than half that of China.**

With roughly half of the population under the age of 25 years, continued economic development is a necessity and an opportunity for India to further improve the quality of life for its citizens. Expanding trade is one of the key vehicles supporting this growth and development which is heavily dependent on efficiency of transportation and logistics services in India.

Today, the cost of trade in India is amongst the highest in the world as compared to its peer countries. For instance, India’s transport and logistics cost

is at 14.4% of its Gross Domestic Product (GDP) as compared to China, which is at 8% of its GDP. The Indian Government has undertaken several initiatives to develop the logistics value chain and facilitate ease of doing business. Its efforts are captured in India's improved rankings in the **World Bank Logistics Performance Index where the country has jumped 16 places and now ranks 35th with a score of 3.42.**

But more needs to be done to improve India's competitiveness and position in world trade. Further reduction in trade costs across the transport and logistics value chain can have a significant impact.

While there is often much debate about the direct costs of transportation and logistics, such as terminal rates, freight rates and inland transport costs, the most significant costs can be the indirect and hidden costs stemming from delays and inefficiencies. Reducing these costs is a significant source of potential savings and improved competitiveness for Indian exporters and importers, and our study enumerates the socio-economic value that could potentially be generated for India.

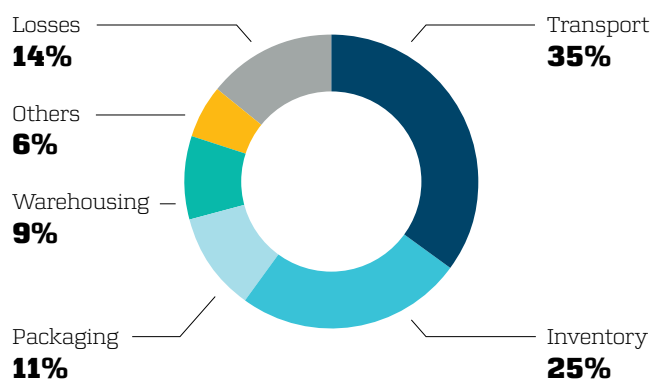
300bn USD

Size of India's Logistics Market



Growing at 16% CAGR

Logistics cost distribution in India



Transport and logistics costs

Direct costs



Lead time +/- hours

Indirect costs



The cost of delays and unreliability

Four sector case studies estimate the hidden costs of trade for Indian importers and exporters.

Based on case studies from four sectors—pharmaceuticals, textiles & garments, electronics, and auto components – our study finds that the indirect and hidden costs of trade accrued from delays and unreliable transportation services amount to as much as 38–47% of total transport and logistics costs.¹ This is particularly due to the fact that for each container transported to and from India, there is a high variation in lead times of 38–66 hours.

Reducing the costs of trade by 10% has the potential to generate additional exports of up to 5–8%.² This means that within each of the four sectors, making trade 10% more efficient could potentially generate between USD 0.2bn and USD 3.1bn in extra exports per sector.

Reducing the costs of trade: Summary of impacts across four sectors



Pharmaceuticals



Textiles & garments



Electronics



Auto components

The study finds that the indirect costs of trade amount to **38–47%** of total transport and logistics costs

... reducing the costs of trade by **10%** has the potential to generate up to **5–8%** extra exports

... in USD this will translate into:

	Exports today, USD	Added export potential, USD
Pharma	11.7bn	0.5–0.9bn
Textiles	38.6bn	1.9–3.1bn
Electronics	9.0bn	0.5–1.2bn
Auto components	4.0bn	0.2–0.3bn

¹ The study was done by QBIS Consulting for Maersk

² Korinek, Jane and Sourdin, Patricia (2009), Maritime transport costs and their impact on trade, OECD Working Paper; P. De, B. Rout (2008), Trade and Development Review, Vol. 1, Issue 2.

Transport and logistics costs in four sectors

Sector case 1: Textiles and garments



5%
India share of global trade (value)

13%
sector share of India's total export

105bn
estimated value of sector overall (USD)

39bn
estimated value of export sector (USD)

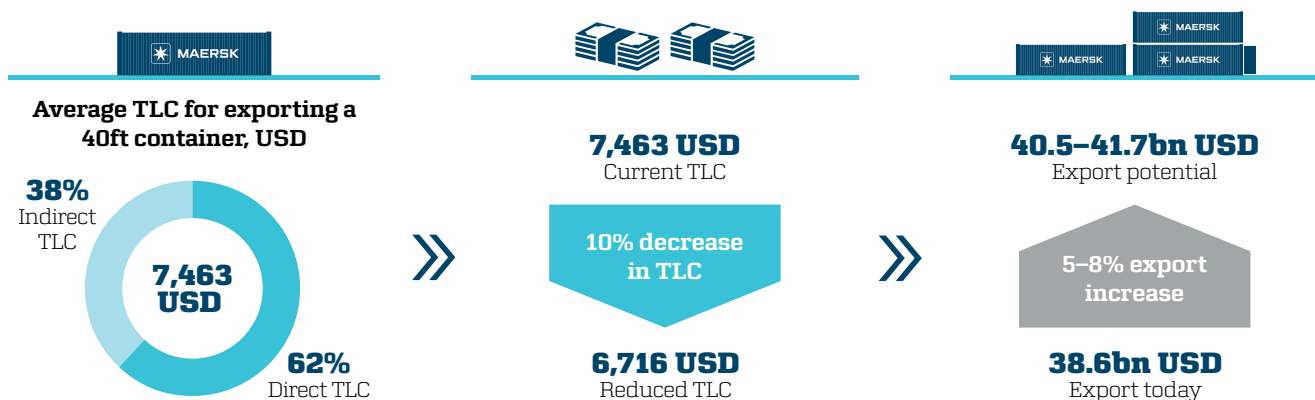
4%
sector share of India's GDP

45m
people directly employed in the sector

- +** India's oldest and biggest manufacturing industry accounting for a significant share of export earnings
- +** Second biggest source of employment (low-skill, high share of women workers), exceeded only by agriculture
- Relatively low levels of modernization and technology investments compared to more advanced competitors
- Intensified (price) competition from low-cost sourcing countries following 2005 textile and apparel trade liberalization
- Higher transport and logistics costs vis a vis peers with challenges in meeting just-in-time requirements of global apparel industry (long lead times, high inventory costs)

Assessment of indirect trade costs and the value of lowering trade costs in the sector*

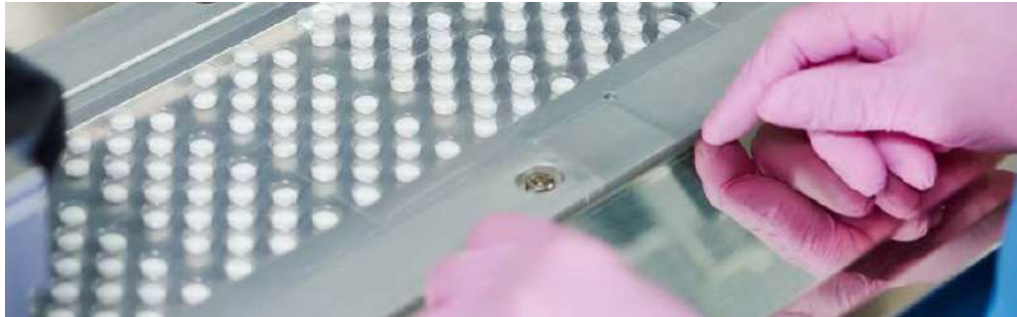
The potential value in terms of increased exports if transport and logistics costs (TLC) were reduced by 10%



* Assessment based on interviews with shippers, Maersk Line, DAMCO and APM Terminals as well as industry reports and external company and logistics data. The assessment of indirect TLC is subject to uncertainty. The above numbers are upper estimates; lower estimates are 7-10% lower.

Transport and logistics costs in four sectors

Sector case 2: Pharmaceuticals



- +** India is the largest provider of generic medicines globally (20% of global exports by volume)
- +** Despite its relative infancy, the pharmaceutical segment has experienced high growth rates and account for a fair share of export earnings GDP
- +** The Government of India has an ambition to turn India into a pharmaceutical innovation hub with growing investments in R&D and value-adding activities
- Stringent pricing regulation, intensified competition from other low-cost sourcing countries (China, Israel) and quality lapses threaten exporter competitiveness
- Lack of adequate and reliable infrastructure (cold chain) adds costs to exporters and reduces competitiveness in a highly time sensitive industry

2%
India share of global trade (value)

4%
sector share of India's total export

20bn
estimated value of sector overall (USD)

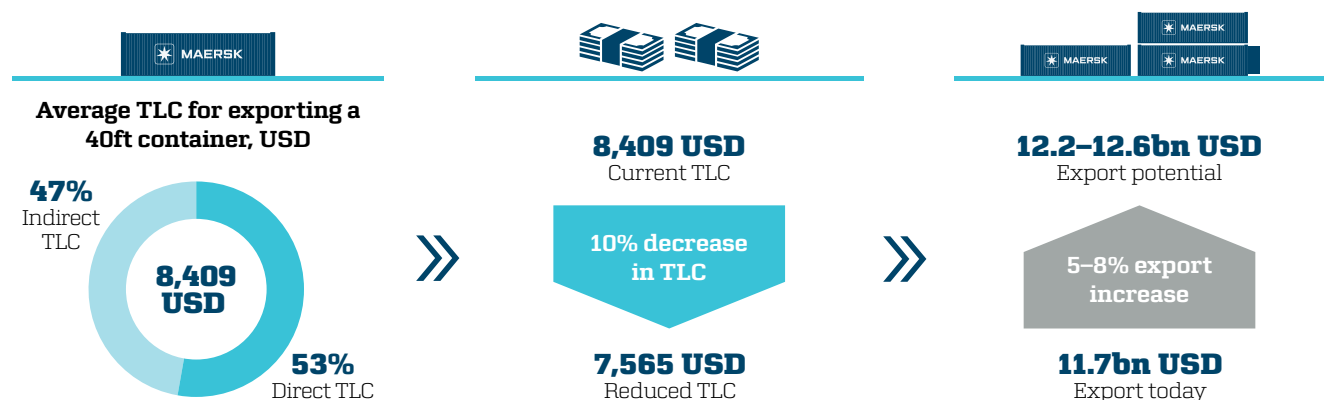
12bn
estimated value of export sector (USD)

2%
sector share of India's GDP

5m
people directly employed in the sector

Assessment of indirect trade costs and the value of lowering trade costs in the sector*

The potential value in terms of increased exports if transport and logistics costs (TLC) were reduced by 10%



* Assessment based on interviews with shippers, Maersk Line, DAMCO and APM Terminals as well as industry reports and external company and logistics data. The assessment of indirect TLC is subject to uncertainty. The above numbers are upper estimates; lower estimates are 7-10% lower.

Transport and logistics costs in four sectors

Sector case 3: Electronics



0.4%
India share of global trade (value)

2.8%
sector share of India's total export

32bn
estimated value of sector overall (USD)

9bn
estimated value of export sector (USD)

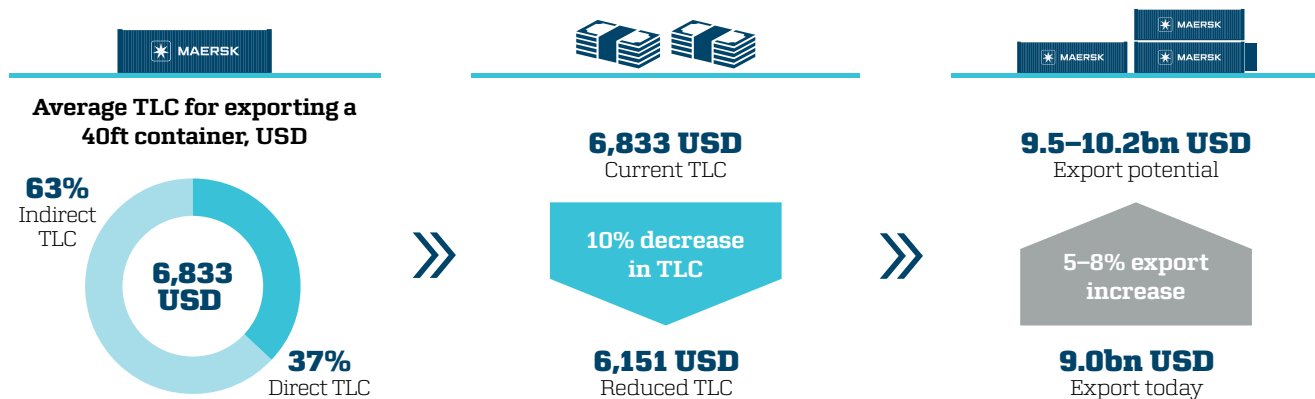
2%
sector share of India's GDP

2%
export sector growth (CAGR), 2010-14

- +** Rising domestic and regional demand for consumer electronics opens new opportunities for Indian manufacturers
- +** Exports of electronic goods, while meager, has picked up to neighboring markets (Asia and Middle East) with growing FDI activity of global consumer companies
- Despite domestic manufacturing ambitions and potential, the sector remains import intensive and is the second top contributor to India's trade deficit
- Indian manufactured electronic products generally of low quality with limited appeal outside domestic market
- Limited incentives for Indian manufacturers to export due to lack of government incentives, failure to meet quality standards and infrastructure challenges and costs

Assessment of indirect trade costs and the value of lowering trade costs in the sector*

The potential value in terms of increased exports if transport and logistics costs (TLC) were reduced by 10%



* Assessment based on interviews with shippers, Maersk Line, DAMCO and APM Terminals as well as industry reports and external company and logistics data. The assessment of indirect TLC is subject to uncertainty. The above numbers are upper estimates; lower estimates are 7-10% lower.

Transport and logistics costs in four sectors

Sector case 4: Auto components



- +** Transfer of know-how and skills from multinational automakers has made India's auto-component sector a viable sourcing alternative for global auto-manufacturers
- +** Innate advantages of geographic affinity to large auto-part importers, a growing domestic market and abundant access to raw materials (steel)
- +** Small, but growing, export sector driven by changed sourcing strategies of global OEMs/auto-manufacturers
- Low levels of innovation and high penetration of counterfeit auto-components, threaten the sector's future competitiveness and global image
- Infrastructure bottlenecks around major auto-component gateway ports (Mumbai and Chennai) increases costs of imports and exports

1%
India share of global trade (value)

1%
sector share of India's total export

14bn
estimated value of sector overall (USD)

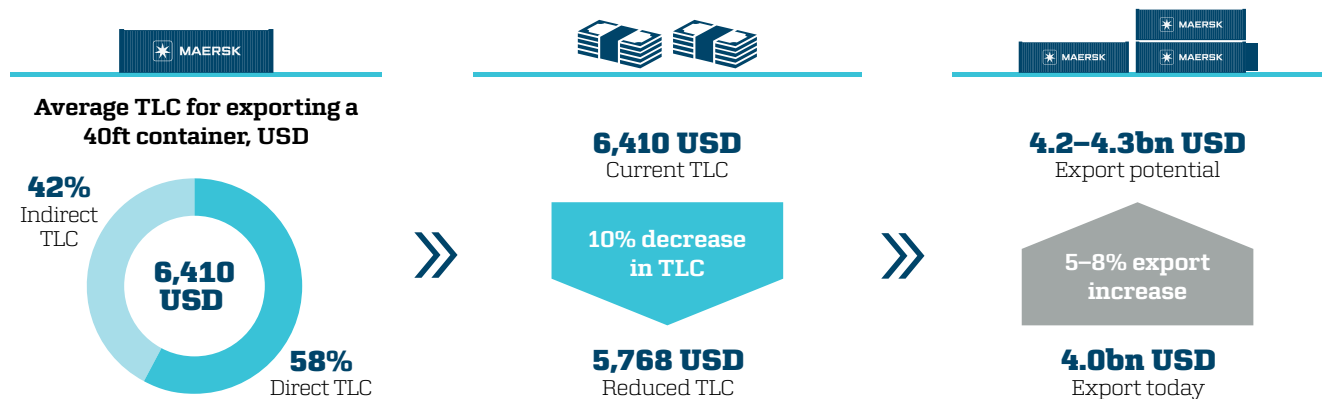
4bn
estimated value of export sector (USD)

0.7%
sector share of India's GDP

16%
export sector growth (CAGR), 2010-14

Assessment of indirect trade costs and the value of lowering trade costs in the sector*

The potential value in terms of increased exports if transport and logistics costs (TLC) were reduced by 10%



* Assessment based on interviews with shippers, Maersk Line, DAMCO and APM Terminals as well as industry reports and external company and logistics data. The assessment of indirect TLC is subject to uncertainty. The above numbers are upper estimates; lower estimates are 7-10% lower.

Proposals for solutions: Business leaders survey

CII undertook a survey with A.P. Moller-Maersk as a follow-up to the study of transport and logistics costs in the four sectors and the potential impact on exports upon mitigation of these costs. 66 companies representing CII membership responded to the survey. Respondents were asked to:

1. Rank segments within the logistics/transportation value chain in terms of where the company experiences the greatest and the least delays and deficiencies when importing and/or exporting containers in India.
2. Rate a selection of proposed solutions across four categories in terms of their potential effectiveness to reduce trade delays and unreliability in India.

The categories were:

- Transparency and digitization
- Infrastructure
- Regulatory environment
- Training & development

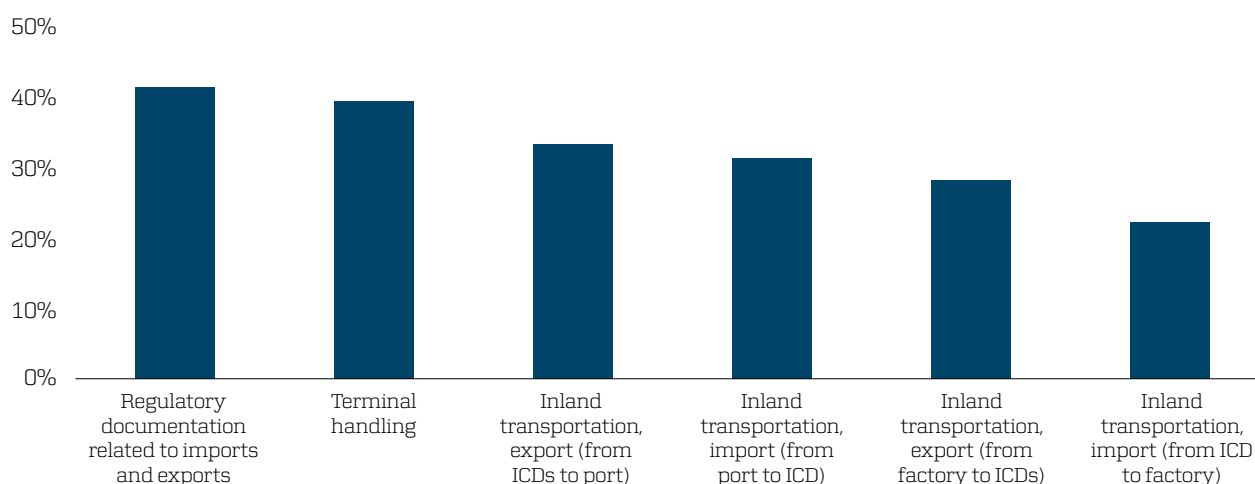
The respondents were also asked to indicate whether they perceive the proposal as a potential short-term solution

The following pages summarise the important findings of the survey of business leaders, incorporating comments from experts and supporting references from selected reports.

EXIM business leaders' survey

Main Challenges

% of respondents rating segment as very challenging (ranking of 1 or 2)



- Regulatory documentation related to imports and exports is the one that is viewed by the largest majority as very challenging, as 42% of respondents rank it as either the top or 2nd most challenging aspect.
- Terminal handling comes out in second place in this view: 38% rank it as either top or 2nd most challenging.

Source: Survey of CII membership, December 2016.

EXIM business leaders survey

Prioritised solutions to reduce hidden costs

Proposals for solutions across four key areas, prioritised by a selection of Indian industry leaders and experts

Transparency & digitisation	Infrastructure	Regulatory environment	Training and development
<ul style="list-style-type: none">• Development of digital tools for documentation processes• Development of tools to provide information on port access delays• Increased visibility on cost for shippers across the transport and logistics chain	<ul style="list-style-type: none">• Investment in port access road infrastructure• Investment in inland road infrastructure• Improving efficiency at ports & terminals	<ul style="list-style-type: none">• Ease of documentation and compliance• Faster clearance for goods/ relief on multiple documentation requirements	<ul style="list-style-type: none">• Upgrading the technical expertise of documentation and compliance handling functions• Investment in training of all aspects of logistics, e.g. truck drivers, crane operator, material handlers

EXIM business leaders survey

Solutions for transparency & digitization

TRANSPARENCY & DIGITISATION

Development of digital tools for documentation processes

Development of tools to provide information on port access delays

Increased visibility on cost for shippers across the transport and logistics chain

Short vs. long-term solution

(assessment of survey respondents)



Digital tools can reduce complexities and delays in the supply chain, and promote certainty/real-time information around delivery. Solutions must particularly aim to:

- Ease cumbersome documentation processes
- Provide information on delays, particularly in access to ports
- Provide visibility on costs of transport and logistics
- Provide direct access through e-platforms (reduce middle-men)

A longer-term solution to trade facilitation issues must include strengthening the soft and hard infrastructure for domestic and external trade. Important steps to speed clearance at the border include providing for fully electronic submission of documents (single electronic window)

World Bank, South Asia's Turn: Policies to boost competitiveness and create the next export powerhouse, 2016

EXIM business leaders survey

Solutions for infrastructure

INFRASTRUCTURE

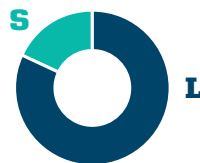
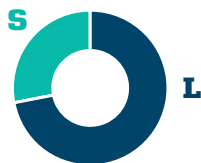
Investment in port access road infrastructure

Investment in inland road infrastructure

Improving efficiency at ports & terminals

Short vs. long-term solution

(assessment of survey respondents)



Creation of logistics parks near ports would serve to alleviate inland transportation challenges.

Further improvements of terminal efficiency must target the gate in/out process (capacity, accessibility, documentation) and port access road infrastructure.

Direct port delivery should be encouraged – container freight stations are largely a holding ground.

Investments in inland roads, rail connectivity and ICDs must be near consumption/manufacturing inland locations – i.e. specific locales need to be identified.

Investment models: Explore potential to increase private sector infrastructure investment. What should be the split between private sector and government in infrastructure investments?

Currently high railway freight, lack of reliability in schedules of freight trains, and poor last-mile connectivity have tilted the modal mix in favour of roads. Moreover cross-subsidization between passenger and freight trains is making railways unviable. Reports share that increasing modal share of rail to 25% from the current 18% can save Rs 3,000-6,000 cr/yr in logistics costs by 2025.

Quality of road infrastructure continues to be a challenge. Highways account for 2% of total length of roads in India, whereas they carry 40% traffic load of the country. The regulatory structures also contribute to delays in road transportation. India's trucks spend only 40% of their time moving on roads, the rest being taken up at checkpoints and tollgates.

EXIM business leaders survey

Solutions for regulatory environment

REGULATORY ENVIRONMENT

Reducing red tape in documentation and compliance

Faster clearance for goods for/by SMEs

Exemption/relief for SMEs on multiple documentation requirements

Short vs. long-term solution

(assessment of survey respondents)



Easing regulatory burdens is particularly relevant for the SME sector.

Regulation of players in the supply chain should be streamlined. Currently some parts are highly regulated and others not.

"In India, the average time reported to clear customs varied from 2 to 10 days for large firms, and 14 to 21 days for SMEs. Indian firms reported that while it takes 11 days for a container to travel from Shanghai to Mumbai, it takes 20 days to travel from Mumbai to Delhi. Poor infrastructure is one reason for these delays, but a survey shows that a quarter of the journey time is spent at check posts, state borders, city entrances, and other regulatory stoppages"

World Bank, South Asia's Turn: Policies to boost competitiveness and create the next export powerhouse, 2016

EXIM business leaders survey

Solutions for training and development

TRAINING AND DEVELOPMENT

Upgrading the technical expertise of documentation and compliance handling functions

Investment in training of truck drivers, crane operators, material handlers etc.

Short vs. long-term solution

(assessment of survey respondents)



Training of truck drivers will reduce transit time for cargo. This includes training on the importance of delivering the cargo on time. GPS enabled tools, as well as tools to ease documentation processes can also support.

How transport and logistics costs are estimated in this study

Direct costs: Consists of charges for inland and ocean transport as well as container handling in container freight stations, inland container depots and sea terminals. In addition, costs associated with compliance with documentary requirements of exporting including fees and procedures.

Indirect costs: These are often overlooked in analyses investigating the impacts of transport and logistics on trade and competitiveness. Nonetheless, particularly when infrastructure is poor and/or operating close or above capacity limitation, these costs become substantial. Based on interviews with shippers and consignees³, six different indirect cost elements have been identified and assessed, including losses due to breakage and spoilage, penalties for late delivery, inventory and storage costs.

The indirect costs vary according to the estimated **length and variation in lead time**. For example, the longer the lead time and particularly, the more variation, the higher the required inventory in order to prevent a stock-out situation.

In addition to interviews with shippers and consignees, the study is based on data collected from Maersk Line, DAMCO and APM Terminals, as well as existing transport and logistics data including World Bank's enterprise survey for India, Trading Across Borders and national Logistics Performance Index for India.

³ The interviewed shippers and consignees are Reliance, Sanofi, Allanasons Limited, Panacea, Mahindra & Mahindra, Samsung, LG Electronics, Welspun, Designco, Shahi, Target, TJX and Walmart.

- Notes -

Lined area for writing notes, consisting of multiple horizontal lines.



Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has over 8000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 200,000 enterprises from around 240 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

The CII theme for 2016-17, **Building National Competitiveness**, emphasizes Industry's role in partnering Government to accelerate competitiveness across sectors, with sustained global competitiveness as the goal. The focus is on six key enablers: Human Development; Corporate Integrity and Good Citizenship; Ease of Doing Business; Innovation and Technical Capability; Sustainability; and Integration with the World.

With 66 offices, including 9 Centres of Excellence, in India, and 9 overseas offices in Australia, Bahrain, China, Egypt, France, Germany, Singapore, UK, and USA, as well as institutional partnerships with 320 counterpart organizations in 106 countries, CII serves as a reference point for Indian industry and the international business community.

Confederation of Indian Industry

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Knowledge Partner



MAERSK

About A.P Moller - Maersk

A.P. Moller - Maersk is an integrated transport and logistics company with multiple brands and is a global leader in container shipping and ports. Including a stand-alone Energy division, the company employs roughly 88,000 employees across operations in 130 countries.

Maersk Transport & Logistics in India

- Only true end to end player across the transport and logistics value chain
- In India, Maersk is present through Maersk Line, APM Terminals Mumbai, APM Terminals Pipavav, APM Terminals Inland Services, DAMCO, Svitzer, Ardent, Maersk Tanker, Global Service Centre, Maersk Training and Maersk Crewing
- Employed over 13,000 people directly in 2015, facilitating 300,000 jobs in the wider economy