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. It is imperative for India to capture larger shares of global markets for growing at sustained high rates. This would require Indian exports to become globally competitive backed by suitable policies. Enhancing competitiveness requires expansion of trade and export-enhancing infrastructure in Indian states.

Rajasthan is India's largest state in land area and is a leading producer of agricultural commodities. While exports are natural advantages of coastal states, a hinterland state like Rajasthan can accelerate exports if equipped with appropriate infrastructure, particularly logistics capacities. One of the disadvantages that Rajasthan has traditionally suffered from is lack of adequate infrastructure for transporting goods to seaports. The state is working on increasing competitiveness of its exports by augmenting modern infrastructure and export-oriented capacities and reducing costs of doing business. Its objective is to increase its share in national exports from 2% right now to much higher levels.

This paper examines the feasibility of three policy interventions for implementation in state of Rajasthan for enhancing the competitiveness of its exports. Rajasthan being a part of the transport connectivity landscape of the Delhi-Mumbai Industrial Corridor (DMIC), the interventions include development of an inland container depot and container terminal; a free trade warehousing zone (FTWZ); and scientific facilities for testing and certifying organic food exports.

Solutions

Interventions	BCR	Benefit (INR Crores)	Cost (INR Crores)
Development of an Inland Container Depot and Container Terminal	1.5	4,853	3,137
Scientific testing and certification facilities for organic product exports	1.5	75	50
Establishing a Free Trade Warehousing Zone (FTWZ)	0.9	2,736	3,007

All figures assume a 5 percent discount rate.

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

Development of an Inland Container Depot and Container Terminal

The Problem

Inland container depots (ICDs) /dry ports are essential parts of the inland trade distribution system and are equipped for handling a variety of cargo. Most dry ports offer customs facilities and in this respect act as clearance points for cargo moving from inland origins to seaports on a country's maritime border. Dry ports are best utilized if located close to commercial and industrial centres and intersections of rail, road and inland waterways. India has an extensive network of ICDs managed by the Container Corporation of India (CONCOR).

The Solution

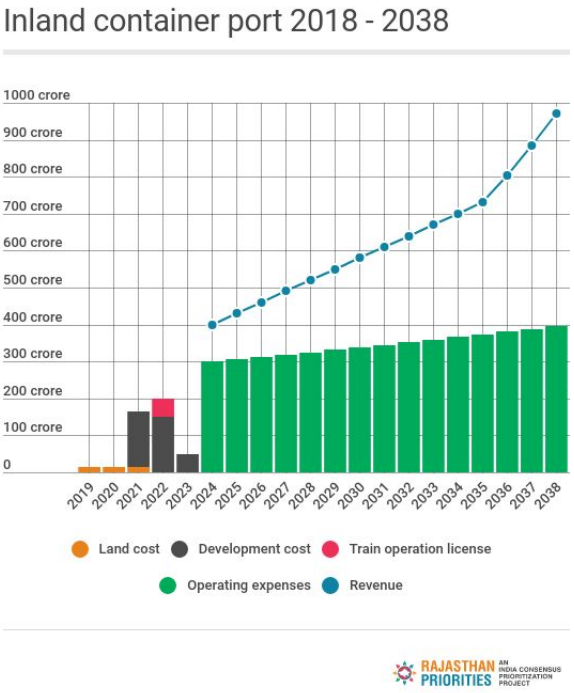
Rajasthan currently has three ICDs at Jodhpur, Jaipur and Kathuwas. Another ICD equipped with a container terminal with strong multimodal transport linkages would encourage movement of goods and exporters by bringing down logistics costs. The importance of the proposed intervention for Rajasthan increases in the light of the upcoming Delhi Mumbai Industrial Corridor (DMIC). The proposed ICD – located in close proximity to Jaipur and DMIC – is visualised to augment the state's logistics capacity. The facility is envisaged over an area of 120 hectares and throughput capacity of the facility is pegged at 500,000 TEU.

Costs

Computation of costs and benefits for the projects are largely benchmarked to costs of building and operating the Dadri ICT of CONCOR as well as the revenues being earned by the facility. Fixed costs are substantive and include purchase of land, its development, costs of handling equipment and train operation licenses. Total cost of this intervention is estimated at Rs. 3,137 crores..

Benefits

Revenue computations are benchmarked to current capacity utilisation at the Dadri terminal and revenues earned therefrom. Noting the efforts by the state government in improving doing business conditions it is factored that the capacity utilisation will be higher than Dadri. A lower annual throughput growth of 5% since the facility is to pick up traffic gradually. Total benefits are estimated at Rs. 4,853 crores.



Establishing a Free Trade Warehousing Zone (FTWZ)

The Problem

Free Trade Warehousing Zones (FTWZs) are customised logistic facilities constructed close to airports, seaports and dry ports for facilitating cargo movement. The latest Foreign Trade Policy (2015-2020), Government of India, emphasizes that these are important parts of the country's trade-enabling infrastructure and are to work as international trading hubs.

The role of a FTWZ can be critical for a land-locked state like Rajasthan, in terms of bringing down the costs of transportation, access to goods and services and enabling its producers to connect to global value chains.

The Solution

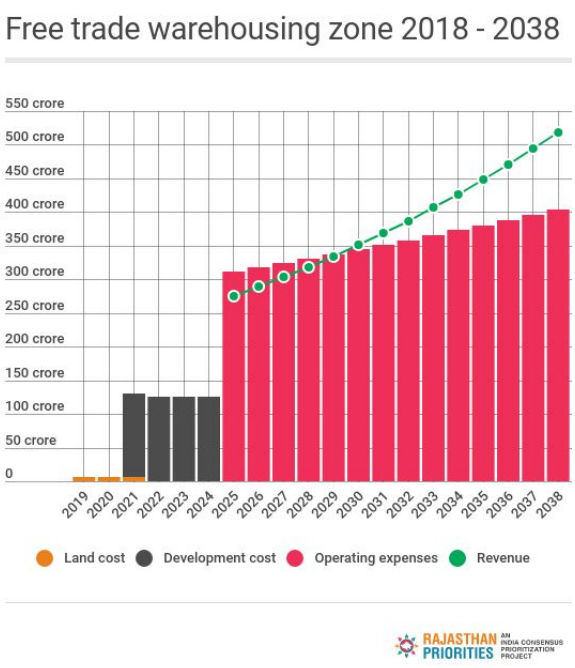
The intervention seeks a FTWZ of around 125 acre, i.e. roughly 50 hectares located close to the DMIC for facilitating crucial backward and forward linkages. This is an intervention that would take time to break

even and should, therefore, be posited in the right geography for ensuring optimal returns.

Costs

The fixed components of the costs of the intervention are land and development costs. While land purchase costs are staggered over 3 years, development costs for the facility, computed on the basis of available warehouse development cost estimates and staggered over four years, are estimated much higher at an aggregate of Rs 500 crore.

This intervention has high operating costs given the servicing costs required for maintaining high standards of logistics facilities. It is assumed these expenses would be 60 percent of total development costs, yielding an annual operating cost of more than Rs 300 crore. It is assumed that there would be 2% cost escalation each year. Total costs of this intervention are estimated at Rs. 3,007 crores.



Benefits

Revenues are computed on the basis of indicative warehousing charges for FTWZs. It is assumed that there would be 70% utilisation of capacity based on continuing improvement in business conditions and good demand. Annual revenue of Rs 275 crore from the first year of operations – i.e. the 7th year– and further project 5% increase in revenues each year is expected due to this intervention. Total benefits estimated from this intervention is Rs. 2,736 crores.

Scientific testing and certification facilities for Organic product exports

The Problem

At present, Rajasthan has the third largest area under organic food cultivation in India and is the fourth largest state in the country in organic food production (2012-13). Quality certification is necessary for Indian exports in gaining wider and deeper global market access. Without such certification, Indian exports, particularly the relatively more perishable food exports targeting global consumers with distinct tastes and preferences, cannot penetrate deeper in global markets and increase national and state shares in global food exports. More certification facilities will incentivize exports and increase overall organic food production from the state.

The Solution

The intervention comprises establishing a laboratory equipped with latest scientific testing facilities for certifying quality standards of organic food exports from Rajasthan to the EU, North America, and other major markets in Asia, including Australia. The laboratory will greatly enhance prospects of organic food exports as these need to conform to the rapidly upgrading quality standards in global markets.

The facility will provide certification according to the standards set out by the National Programme on Organic Production (NPOP) of the Government of India, which has been granted equivalence by EU and US, and is regulated by the Agricultural and Processed Food Development Authority (APEDA) under the Foreign Trade Development and Regulation (FTDR) Act. It will also augment the organic food certification capacities in the state – primarily that of the Rajasthan Organic Certification Agency (ROCA), which is certifying according to the NPOP.

Costs

Fixed costs comprise land and building and laboratory & equipment. The land and building costs are assumed split over three years. From the 4th

year onward, project costs reduce to operational costs assumed as a proportion of total fixed costs for first 3 years and progressive increase annually thereafter. The total cost of this intervention is estimated at Rs. 50 crores.

Benefits

Additional exports generated by the facility, and the revenue fetched therefrom, are based on the benchmark of current estimates of organic food exports from India for 2015-16. It is assumed that Rajasthan's share in these exports is around 15% based on the state's area under food cultivation and organic food production.

It is assumed that an increase of another 15% in them by volume post-facility is based on overall robust projection for India's organic exports, Rajasthan's cultivation of organic oil seeds, and high price premium for organic food in global markets. Further it is assumed that there would be 30% price premium for substituted exports and expect more exports to be substituted over time leading to a progressive increase of 5% in export revenues each year. The total benefits estimated for this intervention is Rs. 75 crores.