



Facilitating the Hub concept in Sri Lanka through Improved Logistics Performance: A case study



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The World Bank in its publication 'Connecting to Compete 2010' stated that trade logistics performance is directly linked with important economic outcomes, such as trade expansion, diversification of exports, and growth. A commonly used definition describes logistics as 'having the right thing, at the right place, at the right time, and essentially at the right price'. Controlling logistics costs allows companies to maintain a competitive edge, since lower logistics costs translate into competitive external trade. The basic modes of transportation are Water, Rail, Road, Air and Pipeline. Water is the slowest mode with rail, road, and air follow in the order of speed of delivery. Generally, the order should be reversed by looking at costs or other commercial reasons. Water is the cheapest mode with rail, road, and air follow in the order of cost of transportation. Sri Lanka (SL) has no overseas logistics link via road or rail. Being an island and given the other comparative advantages, the sea transport has realized the best option in the SL context. Owing primarily to the transportation fundamentals mentioned above SL's Air transport realizes less than 1% of the total external logistics.

The Government of Sri Lanka (GoSL) has embarked on a development agenda based on the Mahinda Chintanaya with the objective of converting the country to a Naval, Aviation, Commercial, Energy and Knowledge hub in Asia. In keeping with this objective, in the recent years, the GoSL has invested heavily in developing the required infrastructure and the improvement of information and communication technology. The United Nations Development Program (UNDP) has identified Sri Lanka as an early achiever on 10 of the 21 indicators of the Millennium Development Goals. The three areas of naval, aviation and commerce are directly related to logistics performance and international trade.





Global perception

Internationally published reports namely, Doing Business reports of The World Bank and the International Finance Corporation, The Review of Maritime Transport reports of United Nations Conference on Trade and Development, The Global Competitiveness Reports of World Economic Forum, and The Connecting to Compete reports of The World Bank that contain different indexes and rankings in relation to logistics performances of countries and international trade. However most of these reports provide market perceptions based on survey results of stakeholders of the industry mainly freight forwarders. Therefore, making cross references to the national indices such as publications Central Bank of SL and various Logistics related trade associations in Sri Lanka would be necessary to understand the reality in the Sri Lankan context.

SL has made steady progress in trading across borders which encompasses converting the country into a naval, aviation and commercial hub. Indices that are used to compare performance of countries show that Sri Lanka has progressed quite well. In the Global Competitiveness Index (GCI) there was a marked increase in 2012-2013 with a GCI of 52 out of 142 and a score of 4.3 out of 7. Sri Lanka has posted positive indicators in doing business across borders. In 2007, Sri Lanka was ranked 99 out of 185 countries and by 2013 the country has improved in its rank to 56.

The country's ranking of Trading across borders has a high relevance in improving Doing Business Ranking thus increase investments in the country. The country's logistics performance therefore is supplementary to this factor.

Indicator	Rank out of 185 economies	
	2013	2008
No of countries considered	185	178
Trading across borders Ranking	56	60
Overall Doing Business Ranking	81	101

Table 1: Sri Lanka Trading across borders (IBRD, 2008 & 2013)





Connecting to compete

World Bank's Logistics Performance Indicators (LPI) analyses six components when determining a country's LPI rank. i.e. The efficiency of customs and border management clearance; The quality of trade and transport infrastructure; The ease of arranging competitively priced shipments; The competence and quality of logistics services; The ability to track and trace consignments; the frequency with which shipments reach consignees within scheduled or expected delivery times.

In the Connecting to Compete Report published by the World Bank in 2010, Sri Lanka's Logistics Performance Index (LPI) was ranked a dismal 137 out 155 countries. By 2012 the rank has improved to 81. It is encouraging to note that SL shows a significant improvement in all the key components.

Indicator	Rank (out of 155 countries)		Improvement in ranking
	2012	2010	2010 vs 2012
Logistics Performance Indicator	81	137	56
Infrastructure	89	138	49
Logistics Quality and Competence	68	142	74
Customs	71	143	72
International Shipments	50	117	67
Tracking and Tracing	86	142	56
Timeliness	110	125	15

Table 2: Selected components of Connecting to Compete Reports 2010 & 2012
(World Bank, 2010 & 2012)

Maritime sector

The shipping density is very high near the southern part of SL and experts from various fields believe that the country is located along the "Silk Route. This is considered the busiest Sea Route in the world with a staggering hundred thousand ships passing by this area each year realizing nearly 290 ships a day. On top of this SL is strategically located in such a way that more than 17 international ports can be fed very economically. All these factors give one strong message, that the maritime sector should be given the SL's national priority as the country is yet again poised to regain its strategic position as the "The Hub of the East".

The transshipment business has slowed down in absolute terms during the recent years, despite the fact that 2009 decline has clear and somewhat justifiable reason taking the global recession into consideration. However, the total volumes continued to grow pulled by the growth of "domestic volumes".



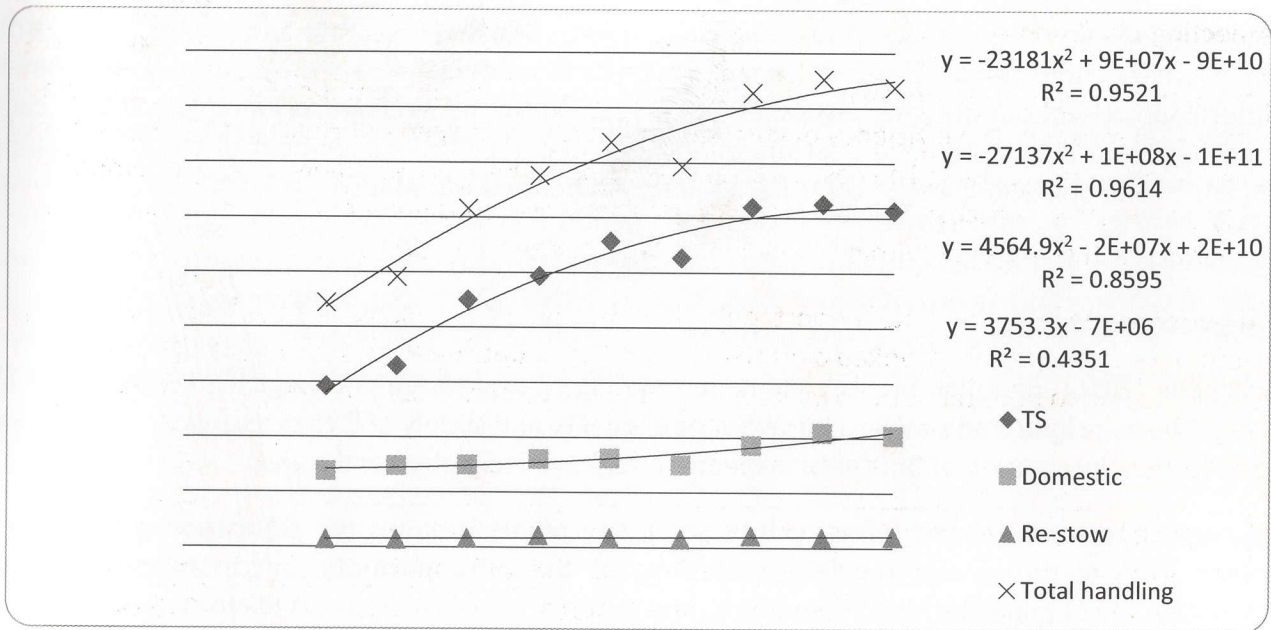


Figure 1: Container Volume handling trends at the Colombo Port (CASA Performance Review, 2012)

Since the small size of the domestic economy is grossly inadequate (unlike in a larger economy such as India or China) to push, on its own import export trade volumes, the shipping demand for Colombo Port to the scales of a vibrant regional naval hub, this decline in transshipment volumes is a serious issue of concern. External trade in SL shows a steady growth annually except a drastic decline in 2009 attributed by the global recession as shown in Table 3.

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ¹	2011 ²
Exports	4,699	5,133	5,757	6,347	6,883	7,640	8,111	7,085	8,626	10,559
Imports	6,106	6,672	8,000	8,863	10,253	11,296	14,091	10,207	13,451	20,269

Table 3: Sri Lanka's external trade in USD Million 2002-2011 (CBSL, 2012)

New business opportunities

Improving logistics performance is an important development policy objective of the country because logistics have a major impact on the 'Hub' concept. In keeping with this trend logistics centered business activities will be encouraged under this new business concept. The emerging business opportunities in Sri



Lanka may include, 1) Entreport Trade involving import , Minor processing and export; 2) Off shore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka; 3) Providing front end services to clients abroad; 4) Operation of the head quarters of leading buyers for the mangement of the finance supply chain and billing operation; and 5) Logistics services as a bonded warehouse.

Impediments to logistics

World Bank (2010) identifies five key elements relating to impediments to logistics performance of a country. These include trade-related infrastructure, quality and supply of logistics services, core customs modernization, integration of Border Management, regional facilitation and transit.

With respect to trade-related infrastructure some key points includes the separation of commercial activities from statutory and regulatory missions of the port authority, successful private sector participation in container terminal operations, and automation of customs procedures. The quality and availability of trade-related infrastructure, especially roads, still constrains logistics performance in developing countries, especially for countries with the lowest incomes. (World Bank, 2012)

Indicator	Rank 2010-11 (out of 139 countries)	Rank 2011-12 (out of 142 countries)
Quality of overall infrastructure	61	48
Quality of roads	55	49
Quality of railroad infrastructure	40	37
Quality of port infrastructure	44	45

Table 4: Infrastructure- Selected competitive indicators in Sri Lanka. WEF (2010 & 2011)

Border management in Logistics

Increased volumes in international trading of a country mean more activities in border management. Sri Lanka reduced the time to export by implementing the ASYCUDA World electronic data interchange system. (IBRD, 2013) In the above hub concept the country's logistics performance plays a vital role especially with respect to Maritime, Aviation and Commercial hubs. Therefore improving logistics





performance has a significant importance in the current context. This could never be achieved without highly efficient, modernized Customs administration in the country, which performs the agency and regulatory functions of the state, at the frontiers. Customs is one of the key components out of six LPI components and the report refers to the efficiency of the clearance process, namely speed, simplicity, and predictability of formalities, by border control agencies, including customs in particular by this short name. (World Bank, 2012) The corruption at the border is a common consequence of complex customs formalities, and capacity constraints. An effective customs need required capacity to process imports and to facilitate export shipments prior to stipulated vessel cut off times. However customs is not the only border managing agency thus encourage cooperation with other border agencies is important. The trend with respect to key border management activities and functionalities are elaborated in the table 5.

Indicator	Rank					
	2013	2012	2011	2010	2009	2008
No of countries considered	185	183	183	183	181	178
Documents to export(number)	6	6	8	8	8	8
Time to Export(days)	20	21	21	21	21	21
Cost to export (USD per container)	720	715	715	715	865	810
Documents to import(number)	6	6	6	6	6	6
Time to import(days)	19	19	19	20	20	21
Cost to import (USD per container)	775	745	745	745	895	844

Table 5: Sri Lanka at borders (comparison as per Doing Business Report) (IBRD, 2013)

Way forward

The comparative analysis of data and information suggests that there is a considerable progress. With regard to the way forward, the GoSL needs to concentrate on five key areas that are paramount for further progress. These areas include; regulations and legal Framework, infrastructure, systems and procedures, ICT functionalities and HR competencies. From the human capacity building perspectives, professionals in





supply chain management need to be vertical industry specialists in order to come up with supply chain solutions. For an example consider the storage of pharmaceuticals. The knowledge of temperature maintenance of such logistics is critical but in reality the respective firms may not understand its gravity. Ultimate result would be that the consumers may compel to buy defective injections as the efficacy is not maintained. Therefore, backward integration of domain knowledge would create a complete professional especially in complicated and ever changing areas such as Logistics.

In general, an "International Logistics Manager" who is professionally qualified in the discipline of "International Trade" such as WTO law, International Commercial Transactions Law, Customs Law etc., will be able to take more proactive decisions in the present complicated environment. In a summary professional education in logistics related subject too has an important role to play in improving logistics performance of Sri Lanka.

About author

Author is a PhD candidate in Transport Planning and Logistics Management who counts more than 25 years working experience in shipping, logistics and border management. He is a Chartered member of CILT and a Chartered Marketer.

