

General Studies-3; Topic: Infrastructure

Logistics Sector in India

1) Introduction

- The Indian logistics sector is a sunshine industry and is going through a phase of transformation on account of various reform initiatives and policy changes.
- The major reforms include the GST, roll out of E-Way bill and the sector being granted infrastructure status.

2) Logistics Sector

- The Indian logistics industry provides employment to more than 22 million people.
- It has grown at a compound annual growth rate (CAGR) of 7.8 per cent during the last five years.
- In the World Bank's 2016 Logistics Performance Index, India jumped to 35th rank in 2016 from 54th rank in 2014 in terms of overall logistics performance.
- India has improved its rank in all the six components of logistics performance index.

3) New Developments

- The logistics sector is undergoing a quiet revolution. The key benefits are reduced costs, quick arrivals and complete tracking of goods.
- The GST would also drive operating efficiencies as the time spent on border checks could now be used to move goods further.
- The grant of infrastructure status will allow the logistics companies get access to more economical loans under favourable terms.
- It will attract investments from debt and pension funds into recognised projects.
- It will simplify the process of approval for construction of multi modal logistics (parks) facilities.
- The introduction of E-Way bill (electronic documentation aimed to track goods movement and prevent tax evasion under GST) would increase transparency as well as encourage further formalisation of the sector.
- A new Logistics Division in the Department of Commerce has been established to coordinate integrated development of the sector.
- Government plans to bring down the logistics cost from current 13-14% of GDP to around 10% of GDP.
- The new developments are likely to reduce the cost of logistics in India.

4) Key Drivers

- In terms of mode of transportation, road remains the most preferred medium for transport.
- The growth and efficiencies in road transport will be supported by recent government initiatives such as Bharatmala and Smart Cities.
- Growth in E-Commerce is another key driver.
- The removal of tax boundaries across states aid the consolidation of warehouses.
- Large trucks and other vehicles act as a mobile warehouse to serve a wider area. This eliminates the need for capital-intensive physical warehouses
- Economic survey 2017-18 said, the logistics industry which is worth around USD 160 billion is likely to touch USD 215 billion in the next two years with the implementation of GST.

5) Limitations

- Logistics sector currently is less automated.
- Over 70 per cent of the logistics sector is in small, unorganised hands.
- India's logistics costs are 40 per cent higher than in most developed countries.
- High cost of logistics impacting competitiveness in domestic and global market.
- Underdeveloped material handling infrastructure and fragmented warehousing.
- Presence of multiple regulatory and policy making entities.
- Lack of seamless movement of goods across modes.
- Poor integration with modern information technology.

6) Way Forward

- Reduction in logistics costs will result in more competitive goods and services, resulting in more trade and commerce for India.
- Focus on new technology, improved investment, skilling, removing bottlenecks, improving inter modal transportation, automation, single window system for giving clearances, and simplifying processes.
- Improving logistics sector has huge implication on exports and it is estimated that a 10 per cent decrease in indirect logistics cost can increase 5-8 per cent of exports.
- The need of the hour is to formulate an integrated logistics policy.
- A mechanism needs to be created to measure the sector's performance at regular intervals.
- Better performance in logistics will augment programmes like Make in India, and also enable India to become an important part of the global supply chain.
- Such measures will also contribute to creation of a New India by 2022.