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India's Logistics Sector

What is the issue?

1. The government's initiatives like Make in India, Atmanirbhar Bharat and PLI scheme are an attempt to expand the high-value manufacturing base of India.
2. But there is a need to strengthen the supply chain logistics sector of India.

What is the status of India's Logistics Sector?

- India's logistics are estimated to account for about 14.4% of GDP.
- More than 22 million people rely on it for their income.
- The Department of Commerce's logistics division for India was established in 2017 and was given the responsibility of the Integrated Development of Logistics Sector.
- Overall, India's logistics sector consists of 37 export promotion councils, 40 Participating Government Agencies (PGAs), 20 government agencies, 10,000 commodities and 500 certifications.
- In 2019, the Indian logistics sector was valued at Rs. 15.1 lakh crore (US\$ 190 billion).
- The unorganised sector amounts to 99% of the logistics sector that includes
 1. Owners of less than five trucks,
 2. Brokers or transport companies' affiliates,
 3. Small-scale warehouse owners, among others.
- The development of the logistics sector is also reflected by the fact that India scored 90.3% in the UNESCAP's Global Survey on Digital and Sustainable Trade Facilitation conducted in 2021.
- This is an exceptional improvement from the score it secured in 2019 of 78.5%, brought about by gains in the scores of five important indicators.
- The score has shown a consistent improvement, with scores of 63.4% and 67.7% secured in 2015 and 2017, respectively.

What is the current need for the manufacturing sector?

- The supply chain, which depends not only on strong infrastructure like modern roads, ports, railways, airports, etc. and also on seamless usage, has been an impediment.
- Despite sizeable investments in these sectors, there is a need to **integrate the supply chain logistics** with the support of information technology.
- Post-Covid, nations have started to strategize for China+1 for a reliable supply chain.
- India too is pushing ahead to enhance high-tech manufacturing, not merely as China+1 but 'Minus China'.
- But it has led to the realisation that a transformation is required in India's logistics

framework, primarily to bring down the logistics costs from 12-14% to the international benchmark of 6-8% of GDP.

What is the allied issue?

- An allied issue that also impacts costs is **slow timelines** for supply chain development, as various government departments/agencies work in silos.
- For example, on many busy routes, the potential efficiency of rail cargo movement in terms of speed and energy costs is nullified by the unpredictability of delivery time.
- Recently, goods with highest time-sensitivity have seen the fastest increase in trade.
- Falling communication costs have resulted in fragmentation of services into components supplied from across the world for assembly and sale to final consumers.
- To provide optimised cost and time efficiency, intermodal logistics is inevitable.

What is Railways' predicament?

- Railways out-prices itself in freight business by cross-subsidising passenger travel.
- Its legacy serves limited commodities like steel, cement, fertilisers and other bulk cargo which excessively increases overall costs for rail freight customers.
- Railways has been losing most of the low-density, high-value cargo due to lack of multimodal facilities and customised fleet of wagons.
- A sub-optimal rail-road mix in freight movement is detrimental to the economy as a whole.
- Beyond a threshold distance, movement by rail is the most cost-effective.
- But it has lost share to road, primarily due to lack of flexibility in its operation and its pricing.

What are the government initiatives?

- Recent major initiatives of the government are
 1. The \$2 trillion Gati Shakti scheme to integrate government arms with a common portal for single-window access to services, and
 2. The National Logistics Policy (NLP).
- After pushing aggressively for local manufacturing, the government must gear up for another transformation to advance manufacturing.
- Leading companies from Apple to Mercedes have already increased their manufacturing base in India.
- This should help reinvent the country's logistics sector to further boost India's local manufacturing.
- Besides the objective to reduce the cost of logistics to single digit by 2030, the policy sets two other key targets:
 1. Improving the logistics performance index ranking to be among top 25 countries by 2030 and
 2. Creating a data-driven decision support mechanism for an efficient logistics ecosystem.

What must Railways do?

- The NLP aims to provide integrated logistics by convergence of traditional transport infrastructure with each other, backed by a robust IT backbone.
- Rail must gain pre-eminence as the preferred mode even as the ideal role of road in first and last-mile and door-to-door service continues.
- It is envisaged that rail's overall modal share of freight transport should be increased to 50% from the present 26%.
- At the heart of the Railways' freight strategy is creation of high-volume and speed freight corridors, calibrating the services to create a critical mass of wagons carrying piecemeal general goods in train loads, in partnership with other players.
- To meet customer expectations, rail freight service would need to be fast, reliable and flexible, working in hub-and-spoke networks.
- Logistics has shifted from being a cost centre to being a centre creating value by leveraging the optimal modal mix, which includes promoting sectors other than rail and road.
- The NLP with PM's Gati Shakti launch has the potential to turn India into a global factory besides benefiting MSMEs and farmers as well.
- The key now lies in coordinated, effective and speedy implementation.

Reference

1. [Business Line | Missing links in India's logistics](#)
2. [IBEF | India's growing Logistics sector](#)



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