

LOGISTICS –A PATH TO ECONOMIC DEVELOPMENT

1.0. Introduction

Logistics is recognized as a key differentiating factor affecting trade performance. Studies also substantiate positive association between trade openness and logistics performance. There are different ways agencies and countries have attempted to assess the logistics performance. Some emphasize on cost of logistics as the percentage of GDP, while some consider freight per ton. In any case, the need is to ensure optimization of logistics cost that varies across different sectors. CTFL and LD (MoC) have identified nine commodities/sectors as priority for working on logistics competitiveness.

Key Perspectives of Logistics

Council of Supply Chain Management Professionals (CSCMP) (2019), defines “Logistics” as ‘that part of the supply chain management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers’ requirements.’

OECD (2015), mentions - ‘Logistics is the management of the flow of resources — cargo, documents, information and funds — through a range of activities and services between a point of origin and a point of destination.’

logistics & trade across borders is affected because of tariff and non-tariff barriers - customs duties, quotas, capital controls, licences, documentations and similar ones affect. These barriers have reduced over period in many countries leading to faster and easier flow of goods, services, workforce and capital between countries (Ekran, 2014).

Improved logistics performance in turn creates demand in economic system for products such as iron & steel, cement and manpower (Çelebi, 2017). The logistics industry has an important mission in revitalizing and improvement of the competitiveness of other industries. Today, all industries are dependent on logistics sector (Sezer and Abasiz, 2017)

1.1 Logistics in India- At a Glance

India has realized that logistics is crucial to country development and have initiated various measures, ranging from of improvement of infrastructure (e.g., Sagarmala project, national

highways and similar), minimization of regulatory interventions (e.g., AEO schemes) and reduction of time (DPD, DPE and similar). India has already taken steps to set up EDI (electronic – data – interchange) systems. We have PCS, ICEGATE, FOIS, NEFT, RTGS, and similar EDI systems. NITI Aayog emphasized that the progress of logistics sector holds an immense value for Indian economy as well; as such advancement would increase exports, generate employment and give the country a significant place in the global supply chain.

India's logistics sector is highly defragmented, and the aim is to reduce the logistics cost from the present, approximately 14% of GDP to less than 10% by 2022. India's logistics sector is very complex with more than 20 government agencies, 40 partnering government agencies (PGAs), 37 export promotion councils, 500 certifications, 10000 commodities, and 160 billion market size. It also involves 12 million employment base, 200 shipping agencies, 36 logistic services, 129 ICDs, 168 CFSs, 50 IT ecosystems and banks & insurance agencies. Further, 81 authorities and 500 certificates are required for EXIM (Export-Import Bank of India) (Ministry of Commerce & Industry).

As per the Economic Survey 2017-18, the Indian logistics sector provides livelihood to 22 million-plus people and improving the sector would facilitate a 10% decrease in indirect logistics cost, leading to a growth of 5-8% in exports. Further, the Survey estimates that the worth of Indian logistics market would be around US\$ 215 billion in next two years compared to about US\$ 160 billion currently. The boom in next couple of years is expected largely due to the implementation of Goods and Service Tax (GST) (Economic Survey Report, 2017). Estimates peg the Indian logistics market to be growing at a steady rate of 15% per annum.

The distribution of various modes of transportation in India shows a dramatic contrast to that of other countries, with road networks making up 60% of total freight traffic. As compared to this, roads account for 37% of freight traffic in US, while the corresponding figure in China is just 22%. Rail and coastal shipping come next in line in India, constituting approximately 32% and 7% respectively. On the other hand, inland water transportation and air account for less than 1% each (World Bank, 2017).

1.3 Logistics Performance: Various Approaches

Performance measurement systems are described as the overall set of metrics used to quantify both the efficiency and effectiveness of decisions and actions taken by an entity. It has been argued that measuring supply chain performance can facilitate a greater understanding of the supply chain, and influence of actors' behaviour; and improve its overall performance (Shepherd

and Gunter, 2010). Figure 1 illustrates exercises undertaken by different agencies to measure logistics performance within and across borders.

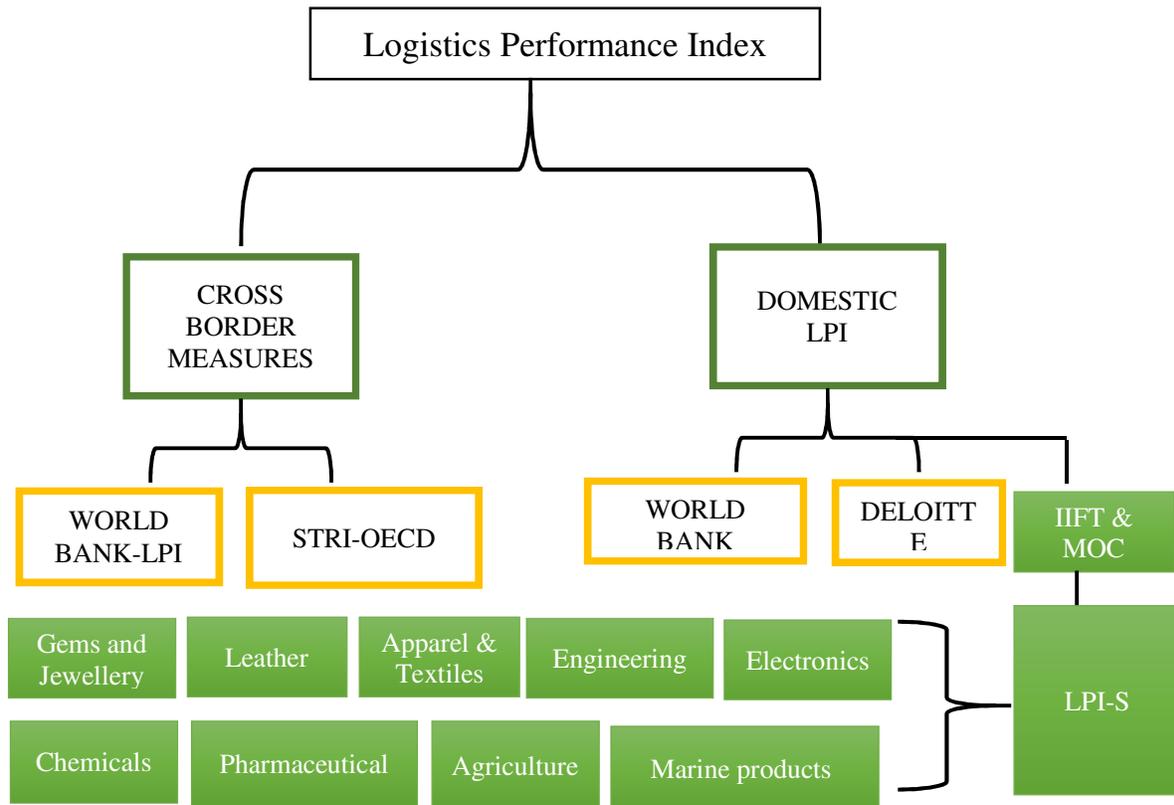


Figure 1: Logistics Performance Bodies

*World Bank publishes **Logistics Performance Index (LPI)** biannually, which measure the logistics performance of participating countries based on their performance on 6 indicators. These indicators are: The efficiency of customs and border management clearance, the quality of trade- and transport-related infrastructure, the ease of arranging competitively priced international shipments, the competence and quality of logistics services, the ability to track and trace consignments, and the frequency with which shipments reach consignees within the scheduled or expected delivery time. The components were chosen based on theoretical and empirical research and on the practical experience of logistics professionals involved in international freight forwarding. Serving as a global benchmarking reference, the report has contributed to efforts by several countries to undertake further in-depth country diagnostic studies. Table 1 depicts the change in the LPI score as a growth percentage of LPI indicators & score in comparison to last year.*

Table 1- LPI Performance of India across years (source: World Bank, 2018)

Year	LPI score	Custom	Infrastructure	International Shipment	Logistics competence	Tracking and Tracing	Timeliness
2007	3.07	2.69	2.9	3.08	3.27	3.03	3.47
2010	3.12	2.7	2.91	3.13	3.16	3.14	3.61
2012	3.08	2.77	2.87	2.98	3.14	3.09	3.58
2014	3.08	2.72	2.88	3.2	3.03	3.11	3.51
2016	3.42	3.17	3.34	3.36	3.39	3.52	3.74
2018	3.18	2.96	2.91	3.21	3.13	3.32	3.5

*Transportation & Logistics professionals at **Deloitte** under the guidance of the State Cell, Department of Commerce, the Ministry of Commerce and Industry, Government of India undertook a study, **Logistics Ease Across Different States (LEADS)**, to make a perception-based assessment of international trade logistics across Indian states and UTs – focusing on users and stakeholders. Along with an overall composite assessment of logistics performance across states, LEADS also provide indicator-level assessments of performance on specific dimensions. These dimensions are: Quality of Transport and Logistics Infrastructure, Efficiency of Regulatory Processes, Safety/Security of Cargo Movement, Ease of Arranging Logistics at Competitive Prices, Ease of Track and Trace, Timeliness of Cargo Delivery, Quality of Services Offered by Logistics Service Providers and Favourability of Operating Environment. The first report on LEADS was launched in 2018.*

*The **OECD Services Trade Restrictiveness Index (STRI)** catalogues barriers to services trade and identifies potential scope to unlock growth through regulatory reform. Services generate more than two-thirds of global GDP, employ the most workers in major economies and create more new jobs than any other sector. Launched in 2014, the OECD STRI presents an up-to-date snapshot of services regulatory regimes in 22 sectors across 44 countries, accounting for over 80% of global services trade. The 22 sectors are further categorised into four dimensions namely Digital network, transport and distribution supply chain, market bridging and supporting services, and physical infrastructure services. The transportation and distribution supply chain dimension of services include 10 sectors viz. custom brokerage, rail freight transport, freight forwarding, storage and warehousing, cargo-handling, distribution services, road freight transport, air transport, maritime transport, and courier services sectors. These measures were finalised during experts' meetings.*

India has seen cyclical trend in STRI scorecard where in 2016 it was ranked the lowest since 2014 and in 2017, it performed best. In 2018, it has witnessed a fall for India in STRI score.

Logistics Division, Ministry of Commerce
&
Centre for Trade Facilitation & Logistics (CTFL)
Indian Institute of Foreign Trade (IIFT)

Now in order to improve the LPI performance and enhance the logistics sector of the country, the Government of India has created Logistics Division in the Department of Commerce with aim of integrated development of logistics sector in India. The division aim to bring down the logistics cost and increase the speed of goods movement. The government of India has taken other various initiatives to enhance the existing logistics sector such as “Make in India programme” and improvements in infrastructure along with the emergence of skilled professionals. The country’s position bettered from 54 in 2014 to 44 in 2018 in the World Bank (WB)’s Logistics Performance Index (LPI), in terms of overall logistics performance. In fact, India improved its tally in all the six components of LPI. India also registered an overall 30 points rise in 2017 and stood at 100th position compared to 2016, in the WB’s Ease of Doing Business Index (EoDBI) (NITI Aayog). Apparently, as per the recent World Bank Report 2018, India has witnessed a downfall in the position from 35th with score of 3.42 to 44th with score of 3.18.

In line of enhancing logistics competitiveness, Centre for Trade Facilitation and Logistics (CTFL), Indian Institute of Foreign Trade (IIFT) along with MoC has decided to work on sector specific logistics performance measurement (referred as LPI-S). With aim of penetrating the focus in depth and providing the inputs for enhanced policy decision, LPI-S is in the phase of development.

1.4. Why Sector Specific Measurement for logistics Performance

- **Different commodity requires different Logistics infrastructure**

Commodities are packed and stored in different manners. This influence the choice of warehouse & transport carriers; and the service providers who have the required expertise.



Refrigerated Truck for Food Transportation



Designed truck for Chemical Transportation



Refrigerated Truck for Pharma products

“Different design of transportation vehicle for different application area”:

- **Export driven sectors**

Nine commodity list has been identified for the purpose of developing LPI-S. These sectors contribute around 80% of the total exports of the country. Following are the nine commodity list: Agricultural commodity, Electronics goods, engineering goods, Gems & Jewellery, Lether, Marine products, Pharma and Petrochemicals & chemicals.

- **Structure and operations for every sector are different**

In India, there are focused ministries/Departments/associations & other sector specific bodies. Focused assessment is required for overall competitiveness & growth.

1.4.1 Sector Specific Challenges & Issues:

- Each sector has specific issues
- Business routes are different (Locations are different, and import and export are driven through fixed routes)
- Clusters are at different location (eg: chemical: Baroda, Ankleshwar, Mumbai, Ahmedabad etc)
- Sector Specific need for warehouse, transportation, material handling etc.
- Logistics cost reduction through Integration of systems & stakeholders
- 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. Thus, enhancing the current logistics sector will act as a trade facilitation for an emerging country like India.

1.5 Extract from National Logistics Plan

“A critical aspect of driving down logistics cost is to identify commodity specific interventions. Of the commodities contributing to significant freight movement in India such as coal, iron ore, steel, cement, food grains, fruits and vegetables etc., most are distributed into regional clusters of supply and/or demand”.

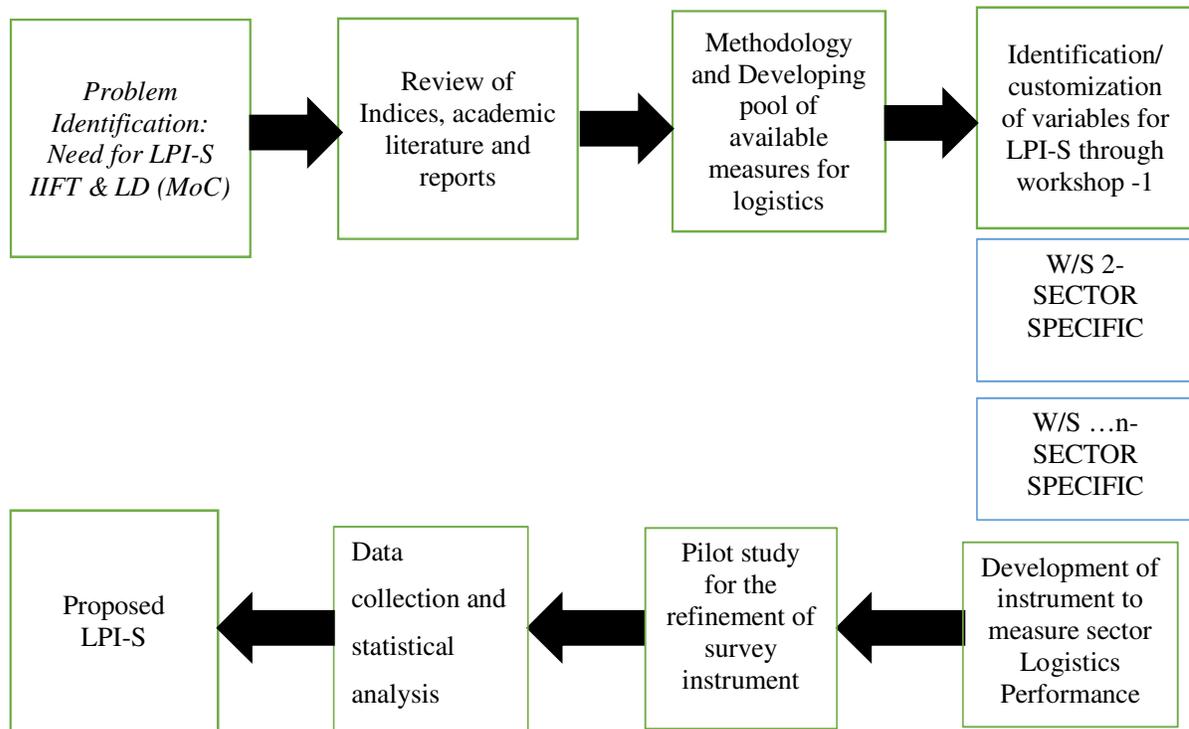
1.6 Need for the workshop

An efficient logistics system plays a critical role in facilitation and growth of trade for attaining global competitiveness. During the recent times efficient and effective logistics is viewed as an opportunity not only for cost reduction but increased responsiveness as well.

Since the logistics is a specific subject involving different channels including transportation, warehousing, packaging etc. which are very product/commodity specific. Assessing what, how, and where needs to be transported has become one of the key concerns for all the stakeholders. Furthermore, the requirements of warehouse and packaging also changes with product/commodity to be stored. Realizing this, Centre for Trade Facilitation and Logistics (CTFL) is attempting to develop a **sector specific index for measuring the logistics performance** across the prominent sectors of India.

The purpose of the present workshop at CTFL is to have focused and meaningful discussions and undertake brainstorming events in which the key stakeholders of logistics services, academicians and other experts from the industries; would interact with policy-makers regarding the proposed agendas.

1.7 Development of LPI-S: CTFL Approach



1.8 Work Agenda

The meeting will focus on the following key broad agendas:

- Issues and challenges related to sector specific logistics of different sectors.
- Need for sector specific development of logistics ecosystem (involving all stakeholders- service providers, government & customers).
- Identification of the elements of logistics (transportation/ warehousing/ packaging/ customs & documentation) that needs specific interventions and attentions

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