

## LOGISTICS INFRASTRUCTURE IN INDIA- CHALLENGES AND OPPORTUNITIES

### ABSTRACT

Globalisation and privatization have evolved India as one of the emerging nations of the world's leading consumer markets. The country is striving to become one of the top three economies in the world and expects to sustain strong growth over the coming years. The logistics sector has gained priority and has become an important sector in India today. A key reason can be identified for the same in the years of high growth in the Indian economy that have resulted in a remarkable rise in the volume of freight traffic movement both within and outside the country. The large volume of freight traffic has provided impetus and growth opportunities in all facets of logistics services.

Through this research paper the research scholar aims to highlight the various opportunities and challenges faced by the logistics sector in India in terms of logistics infrastructure of the country. The paper also focuses on discussing about the infrastructural inadequacies at present and growth aspirations and expectations for the future which are essential for the overall economic development.

**Key words:** Logistics, Logistics Infrastructure, Economic Growth, Globalisation

### INTRODUCTION

Globalisation and privatization have evolved India as one of the emerging nations of the world's leading consumer markets. The country is striving to become one of the top three economies in the world and expects to sustain strong growth over the coming years. The logistics sector has gained priority and has become an important sector in India today. A key reason can be identified for the same in the years of high growth in the Indian economy that have resulted in a remarkable rise in the volume of freight traffic movement both within and outside the country. The large volume of freight traffic has provided impetus and growth opportunities in all facets of logistics including transportation, warehousing, freight forwarding, express cargo delivery, container services, shipping services etc. The growth path means that an increased demand is being placed on the sector to provide the solutions required for strengthening the future economic growth of the country.

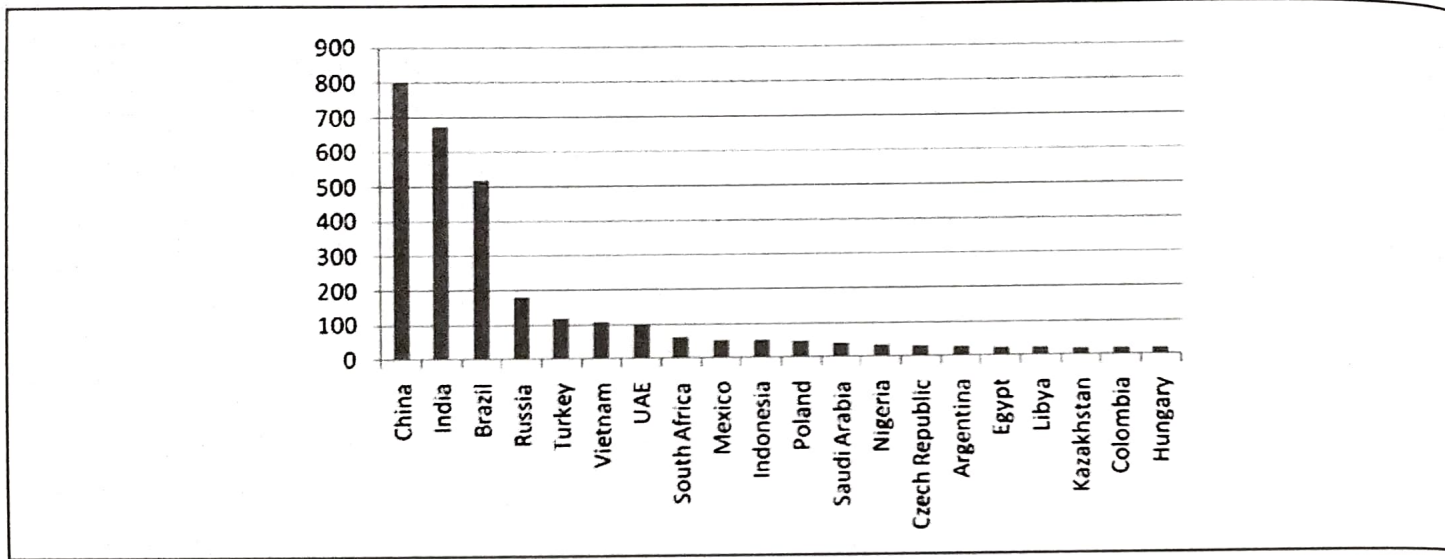
One of the crucial enablers of economic growth is infrastructure development. Logistics infrastructure, involving the road, rail, waterways and air network of a country, is the backbone on which the nation can proudly move forward and strengthen its economic development.

According to the Emerging Markets Survey, 2011 conducted by Transport Intelligence (Fig.

1), India emerges as a strong growth area and a major hub for future logistics needs. It has also been highlighted that the nation's rapid growth

and market size were the key factors for global players seeking opportunities in this region.

• **Fig. 1. Perceived major logistics markets of the future**



Source: Transport Intelligence, Agility Emerging Markets Logistics Index, 2012

## THE CURRENT INFRASTRUCTURE SCENARIO

In the past, in India, road, rail and waterways network were traditionally developed to transport troops, agricultural products and raw materials etc. resulting in inadequate and insufficient logistics infrastructure in the country. Over the last 65 years, there has been a significant change in the freight changing consumption patterns and increasing numbers of production centres. However, limited planning and investments in freight transport have resulted in numerous inefficiencies and increased pressure on the existing stretched freight networks. (Mckinsey Report, July 2010)

The current logistics infrastructure of the country is weak and significant portion of the same is over-utilised, despite of greater attention and investments in the sector. Most of the national highway network and rail links along the Golden Quadrilateral and North-South and East-West corridors are heavily congested. Further, India's freight traffic is expected to grow over 2.5 times in

the next 10 years or at around 7.5 per cent CAGR. While investments in logistics infrastructure will increase, the inability of the sector to keep pace with growing traffic will increase inefficiencies and losses to the economy will continue to rise (www.deloitte.com/in, Jan 2012).

## CHALLENGES

The logistics sector in India remains stuck up in several complexities which act as the hindering factor and have the potential of holding it back from growth. These include significant inefficiencies in transportation, poor condition of storage infrastructure, a complex tax structure, low rate of technology adoption and poor skills of the logistic professionals. **The key challenges for the sector are highlighted as below:**

### 1. Inefficiencies in transportation:

- Road is a principal mode of transportation of freight cargo in India. According to a report generated by

RITES, the cargo movement by road in India is almost 61% which is much more as compared to 37% share of road in the USA and 22% in China, reason being, oversaturation of important rail networks, rising cost of rail freight tariffs, long and uncertain transit times, poor quality of railway terminals (goods shed) etc.

Even though roads are preferred over rail, it has its share of issues and complexities. Inadequate road network coverage, poor road quality, high level of fragmentation of trucking industry and other such issues affect the growth of logistics infrastructure in India.

Ports in India also suffer from deficiencies and issues. According to data from Indian Ports Association, Indian ports suffer from high turnaround time for ships, inadequate depth at many ports. Also, the costal shipping in India is weighed down by insufficient port and land side infrastructure which hampers its use at a large for freight movement.

## 2. Inefficiencies in storage infrastructure

In addition to poor transportation infrastructure the storage infrastructure in India also needs significant improvement.

Inadequate infrastructure at ICD/CFS

Poor state of warehousing

Inadequate availability of cold storage

## 3. Challenges relating to tax structure

The Indian tax structure is quite complicated and poses several challenges to the logistics industry at large. The payment of multiple state and central taxes results in considerable loss of transit time for road freight.

## 4. Technological inefficiencies

The logistics industry in India is affected by the low technological adoption and inadequate skill set of employees. The automation of processes and systems is still in the nascent stages in the logistics industry. Standardisation is another important issue that hinders the progress of the sector.

Logistics industry is not looked as the industry of choice by the young graduates making it a career of choice. This results in lack of qualified and skilled professionals in the industry that requires variety of skills. At present, the educational courses that focus on the logistics industry are few and remain far between.

(Deloitte report, 2010)

## OPPORTUNITIES

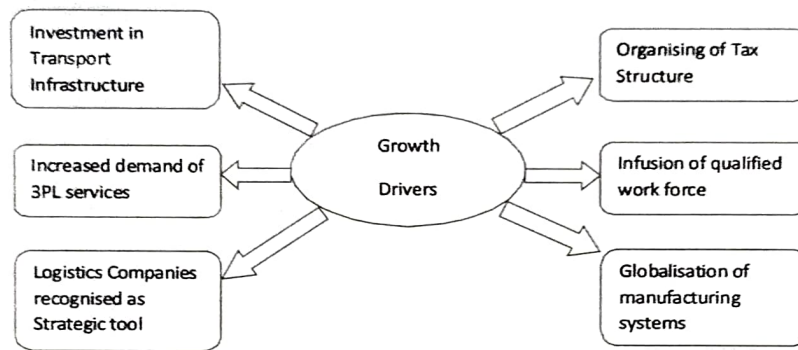
The growth of the Indian logistics industry is poised for a significant change in the years to come with the increase in activities by the manufacturing and retail sectors. Today, the companies, especially in the automotive, pharma, manufacturing, retail and FMCG sectors, are increasingly opting to outsource their logistic requirements to specialized service providers. (Deloitte Report, 2010, Last Accessed April 2012)

To enable effective contribution from these sectors to India's growth the logistics sector needs to step up to provide value-enabling solutions and value added services for these sectors. This would in turn require

- Creating an environment for graduating the Indian logistics market to provide value propositions in logistics solutions.
- Increasing the capability of the Indian Logistics Industry to provide such solutions.

- Requiring Government and other regulatory mechanisms in the country to provide an enabling environment for value propositions in logistics services.

With the growing businesses and increasing competition across industries, there is a rising need for more efficient and reliable logistics services than what exists today. The rapid growth of organized retail and the need to reach out to the large untapped rural markets in India are necessitating development



**Fig. 2 Growth Drivers of the Logistics Industry**

of strong back end and front end supply networks. Some of the growth drivers are indicated in the Fig.2.

The end user industries like auto, consumer durables, organized retail, etc are direct triggers for the growth of the logistics sector in India. Some of the

## CONCLUSION

Logistics Infrastructure is the biggest challenge faced by the nation's logistics sector and it acts as a major disincentive to its growth. The logistics cost is high in India in comparison to other developed nations because of the infrastructural bottlenecks. The transportation of freight through roads contributes to a major portion amounting to almost 65% of the goods. However, due to lack of sufficient infrastructure the smooth operational functioning gets hindered and affects the efficiency of

the transport system. Rapid growth in India's freight traffic, high utilisation of key routes and poor condition of roads, railway, warehouses etc. call for prioritising the development of logistics infrastructure.

The logistics industry in India continues to be the crucial point of strategy formulation, high operational quality and information technology to make the utmost contribution in value creation for the end customers. Globalization, privatization, technological advancements and outsourcing have led to growth in the

logistics services market and thus the industry shall continue to evolve in the years to come.

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