

## **India can add 8% to its exports if it puts its last mile connect in the fast lane if it puts its last mile connect in the fast lane**

By Shariq Khan, ET Online. Updated Aug 22, 2019.

The critical role played by India's logistics sector in the country's economic growth story could not be understated. Instrumental in moving goods across its huge length and breadth (about 3.287 million square km), Indian roads are the lifeline of the logistics sector. However, the logistics sector itself is highly unorganised, fragmented and currently mired in multiple challenges leading to operational inefficiency on several fronts.

In India, the logistics cost as a percentage of its GDP stands at 14%. This cost is pretty high compared to the similar cost in the US (9.5%), Germany (8%) and Japan (11%). Nevertheless, the country aims to bring down this cost to less than 10% by 2022. Considering the critical role of logistics in propelling India's exports, Federation of Indian Export Organisations (FIEO) believes a reduction in logistics cost by 10% could increase the country's exports by about 5-8%.

### **The all-important last mile**

Stemming from the same concept is another of its byproduct -called the 'last mile' - a term used in supply chain management to refer to the last leg of the supply chain, denoting the transportation of goods from a transportation hub to its final destination. This final destination could be the location of an end customer or inland container depots (ICDs), container freight stations (CFSs), ports or airports where goods are to be delivered for their eventual exports.

Given the vast expanse of the country's sheer size, a varied and uneven topography, coupled with the fact that a large number of the country's industrial clusters (dominated mainly by MSMEs) are based out of its tier 2 cities, and not in its large metros, the last mile connect has historically been said to be throttling the growth of Indian MSMEs. For instance, be it Kishangarh (in Rajasthan, touted to be Asia's largest marble market), or Agra and Kanpur- country's leather hubs, or for that matter, Moradabad (known for brass exports), Firozabad (known for glassmaking industry) or textile hubs of Tirupur, Erode, Karur, Salem - are all based out of India's tier-2 regions. It's also a pertinent fact that historically such regions have been plagued with issues of access and reach.

While in recent times the government has taken many steps to minimise last mile woes, a lot is left to be desired. Various studies have shown that Indian logistics landscape, typically comprises of isolated entities, with a skewed modal mix that depends heavily (about 60%) on the already congested Indian roads. The Indian coastline and river network have historically remained underused, even though such models are more energy-efficient, ecofriendly and comes with reduced logistics costs, highlights a recent Deloitte-Assocham study. The same study notes that the cost for India can add 8% to its exports if it puts its last mile connect in the fast lane - coastal shipping is Rs 0.15-0.2 per tonne-km compared to Rs 1.5 for railways and Rs 2.5 for the road. Addressing these anomalies could alone provide a huge

potential to lower logistics cost in the economy by Rs 21,000-27,000 crore by 2025, the report adds.

### Speed breakers galore

Among the critical pain points that are said to be plaguing country's logistics landscape include an unorganised, not so efficient infrastructure, absence of digital adoption, not suitably skilled workforce and various regulatory issues. So, what do industry leaders feel about this critical bottleneck? Anil Bhardwaj, Secretary-General of the Federation of Indian Micro, Small & Medium Enterprises (FISME), believes, "Availability and efficiency of logistics have a direct bearing on firms' competitiveness." Highlighting how disparities in locational advantage results in a downside to north India based industries, he says, "Industries in North Indian states have a natural disadvantage against coastal states of Tamil Nadu, Andhra Pradesh, Maharashtra and Gujarat as those can import raw materials at better international prices and export to." According to the industry expert, being handicapped by location weighs down smaller firms more, because compared to their larger counterparts, they cannot relocate to states which have a more efficient infrastructure network. Another industry leader, Rajiv Chawla, chairman of Faridabad based Integrated Association of Micro, Small and Medium Enterprises of India (IamSME), is of the view that the country urgently needs a cohesive integrated approach to Infrastructure strengthening. "We need to make internal road transport more efficient. Octroi is now gone, but toll collection and barriers should be made efficient and smart. Truck unions and coercive methods are an obstruction in many Industrial clusters that need to be curbed," he says. Commenting on the niggles arising out of a not-so-smooth functioning and execution of e-way bills, the industry leader goes on to add, "e-way bills are an absolute menace, [these] should be immediately removed."

Country	Year	LPI Rank	LPI Score	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
Germany	2018	1	4.20	4.09	4.37	3.86	4.31	4.24	4.39
China	2018	26	3.61	3.29	3.75	3.54	3.59	3.65	3.84
Taiwan	2018	27	3.60	3.47	3.72	3.48	3.57	3.67	3.72
Thailand	2018	32	3.41	3.14	3.14	3.46	3.41	3.47	3.81
Malaysia	2018	41	3.22	2.90	3.15	3.35	3.30	3.15	3.46
India	2018	44	3.18	2.96	2.91	3.21	3.13	3.32	3.50
Indonesia	2018	46	3.15	2.67	2.89	3.23	3.10	3.30	3.67
Cambodia	2018	98	2.58	2.37	2.14	2.79	2.41	2.52	3.16
Bangladesh	2018	100	2.58	2.30	2.39	2.56	2.48	2.79	2.92

Source: World Bank Logistics Performance Index 2018

According to the logistics performance index (LPI), which is the weighted average of a country's score on the six key dimensions, India lags behind most nations in Asia. Germany tops the Index, while India is ranked at 44. The Index takes in to count aspects like Customs, which is used to gauge the efficiency of the clearance process (i.e., speed, simplicity and predictability of formalities) by border control agencies, including customs). Similarly, Infrastructure takes in to count the quality of trade and

transport related infrastructure (e.g. ports, railroads, roads, information technology).

### **Takeaways from the Dragon's turf**

Experts opine that the Chinese logistics landscape was once like India's and its turnaround in recent years has many takeaways implementable across the Indian logistics landscape. "India has around 750 last-mile links with less than 100 km distance connecting industrial belts, ports, and distribution centres to highways and major long haul connectors. These links are crippled by poor infrastructure, road conditions and unskilled labourers bringing up mainly 'indirect cost' of last-mile delivery. Waterways and Railways for the last mile are almost insignificant. In contrast, China has developed a massive last-mile delivery network with a well-balanced mode with waterways, roadways, and railways," says Joyjeet Maity, Vice President (VP), Ecommerce & SME, Moglix, a B2B commerce company. Maity adds that in China, adoption of technology-enabled processes, logistics aggregators and investment in drones, AGVs (Automated Ground Vehicles) has taken last-mile logistics several notches above. Saahil Goel, CEO & cofounder of Shiprocket, a logistics platform, believes there is a lack of robust infrastructure and technology-enabled logistics in smaller cities of India that leads to inefficiency at the last mile in these parts.

### **Putting the last mile in the fast lane**

Experts assert that to have an integrated end-to-end logistics network, the need of the hour is that all relevant policymakers, logistics service providers (LSPs), transport and terminal infrastructure service providers come together to formulate a cohesive and integrated logistics policy. The Indian government, to this effect, has recently reviewed the draft National Logistics Policy (NLP). The mega policy blueprint, with inputs taken from four relevant ministries, i.e, the Ministries of Railways, Road Transport and Highways, Shipping and Civil Aviation and 46 Partnering Government Agencies (PGAs), hints at the broad scope of the soon-to-be-introduced policy framework. With a view to develop a multi-modal infrastructure, the policy envisages optimising the current modal mix (road-60%,rail31%,waterways-9%) to bring them at par with international benchmarks (road--25-30%, railways--50-55%, waterways--20-25%).

To bring down the country's logistics cost from the present 14% of GDP to less than 10% by 2022 that the government envisions, industry leaders underline that India needs to play to its strength, which is put to use its proven prowess in domains such as IT capabilities and digital technologies. As per them, any logistics-centric roadmap, aimed at tackling last-mile woes, must thus focus on leveraging on India's capabilities in technologies such as cloud computing, blockchain technology, internet of things, among others.