Indian manufacturing lacks logistics

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The state of India’s manufacturing sector is concerning. Especially when compared to the massive transformation registered in this sector by other Asian countries in similar stages of development. Contributing around 16 per cent of India’s GDP, manufacturing remains far below its potential, which should be at least 25 per cent.

The much acclaimed ‘Make in India’ campaign, launched by the Indian government, has been the key strand of the strategy for India’s economic revival. This campaign aims to establish India as a major manufacturing hub, creating millions of employment opportunities and pushing India onto a high and sustainable growth trajectory.

The Indian government is building corridors across the country to boost manufacturing and project India as a global manufacturing destination of the world. The most important of these corridors is the Delhi–Mumbai Industrial Corridor, which is one of the largest infrastructure projects planned in India, spanning six states — Uttar Pradesh, Haryana, Madhya Pradesh, Rajasthan, Gujarat and Maharashtra. It intends to boost India’s manufacturing capabilities by inviting foreign capital and technology.

The program embodies a manufacturing and export-led growth model. This model has to be understood in the context of global production systems, in which intermediate goods are shipped numerous times in multiple countries prior to being assembled together. As a result, global supply chains have become more complex and risky.
The ‘Make in India’ strategy has to place itself within the global supply chain network to contribute a greater share in world trade. Even if global production was to shift to India due to its skilled and low cost work force, availability of industry specific clusters and a reduction in non-tariff barriers, high logistics costs would negate all these advantages. Indian logistics costs are estimated to be of around 13 to 14 per cent of GDP, almost double the 7 to 8 per cent of GDP in developed countries.

India has 12 major and 187 non-major ports. Cargo traffic, which recorded 1052 million metric tonnes in 2015, is expected to reach 1758 million metric tonnes by 2017. The Indian ports and shipping industry is vital in sustaining growth. India is the 16th largest maritime country in the world, with a coastline of about 7517 kilometres.

The government plays an important role in supporting the ports sector. It has allowed huge volumes of foreign direct investment under the automatic route for port and harbour construction and maintenance projects. It has also facilitated a 10-year tax holiday to enterprises that develop, maintain and operate ports, inland waterways and inland ports.

None of India’s major ports can routinely handle ships with large loads, so Colombo, Dubai and Singapore transship Indian containers. Indian roads are congested and railways have capacity constraints. Air cargo, which now constitutes 35 per cent of total international trade by value, faces similar problems.

Dwell time in the air cargo terminal is a critical bottleneck that compromises the competitiveness of the Indian industry. A high dwell time slows down the entire process. For the last 7–8 years, the dwell time in India has been 72 hours, far higher than the 24 hours it takes to clear 80 per cent of inbound air cargo at major international air cargo hubs like Singapore. The dwell time in Hong Kong is just 4 to 8 hours. All this points to a significant logistics deficiency in India.

Despite targeting a surge in trade share, India has never viewed its logistics competencies from a specific trade-enabling perspective.

A trade logistics network unifies elements of transportation, warehousing, trade facilitating institutions, information and communications technology and logistics service providers. When compared with the international trade logistics networks, the Indian logistics network lags on all aspects, be it infrastructure, customs or quality of services, resulting in high cost outcome, uncertainty and low reliability. Out of 160 countries, India ranks 54 in the World Bank’s 2014 Logistics Performance Index, way behind South Africa (34), Chile (42), Panama (45) and Vietnam (48).

‘Make in India’ necessitates a complete integration in the international trade logistics network so that exporters can move, store and deliver goods faster and at a lower cost to retain their competitive advantage. As India moves higher up in the value chain for specialised tasks, the regional, national and international movement of goods will increase. Fortunately, the logistics obstacles faced by India are self-imposed and are not due to any geographical disadvantages. A focused program to redesign, build and upgrade the overall logistics network from the perspective of trade is essential for the success of the ‘Make in India’ strategy.
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[3] the Delhi–Mumbai Industrial Corridor:
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[4] huge volumes of foreign direct investment: