Developing an Efficient Logistics Ecosystem

What is the issue?

Exports allow developing countries to grow, create more jobs, become more competitive but it needs several pre-requisites such as an efficient logistics ecosystem and integration of domestic firms in global value chains.

How can the logistics sector be better understood?

- **LPI** -The World Bank publishes the Logistics Performance Index (LPI), a composite index and benchmarking tool to analyse how efficiently supply chains in an economy connect firms to international opportunities.
- India was ranked 44 out of 160 countries on the LPI in 2018.
- The LPI measures performance along the logistics supply chain within a country and offers two different perspectives - international and domestic.
- Under LPI, countries are ranked on a perception-based global survey of ground operators in the logistics sector such as freight forwarders and carriers.
- It allows countries to identify opportunities and challenges with respect to trade logistics and take steps for improving performance.

- **LEADS** -The Ministry of Commerce and Industry has also crafted the Logistics Ease Across Different States (LEADS) 2021 to analyse the business environment in all State/UTs pertaining to infrastructure, policy, and regulatory regime for improving logistics efficiency in India.
- It analyses the domestic and EXIM logistics ecosystem of the state.
- The overall index is based on twenty-one indicators including seventeen perception indicators and four objective indicators.
- Gujarat, Haryana and Punjab have emerged as the top performers in the LEADS 2021 index.
- Within the North Eastern States and Himalayan Region, Jammu and Kashmir is the top ranker followed by Sikkim and Meghalaya.
- Delhi stands at the top rank among Other UTs.

What are the limitations of LPI for diverse developing countries like India?

The logistics costs in India is still high at around 14 % of GDP

- **Neglects critical factors**-The LPI is calculated by taking a weighted average of scores on core indicators with the weights for all indicators being almost identical.
- The index does not consider the relative criticality of factors like the quality of trade infrastructure and the border wait time over ability to trace consignments.
- **Flaws in a perception based survey**- Serious flaws in terms of subjectivity and recency bias were common in perception based surveys as the industry perception may not represent the wider intra-country logistics setup.
- This is especially true for poor countries, which often rely on traditional operators whose service levels are often not as high and broad as operators functioning in multiple regions.
- **Neglects efficiency**- The efficiency of internal supply chains in India is largely ignored by the international LPI rankings.
- **Influence of government policy**- The perception of both domestic and international logistics operators is greatly influenced by government policy which operates differently for goods moved domestically compared to those meant for export.
- **Access issues** -The LPI scores also reflect access issues outside the country under assessment, such as transit difficulties, which cannot be eliminated through domestic reforms.
- **Natural deterrents- Comparison between countries differing in** factors like geography, terrain, resource base and economic activity act as natural deterrents for the development and management of a robust logistics infrastructure requires a more detailed narrative.

How can the LEADS 2021 complement LPI for achieving the logistic reforms?

- **Objective and perception-based indicators**- LEADS 2021 focusses on both domestic and international trade and use a combination of objective parameters along with perception-based indicators.
- The objective indicators assess the enabling initiatives implemented by State/UT(s) in the logistics sector while the Index employs secondary

datasets to capture logistics infrastructure, services, and facilities.

- **Methodology**- The LEADS's methodology can effectively complement LPI by capturing the perspective of logistics professionals and account for local contextual variables such as capital outlays to build transport infrastructure, capacity of logistics services, regulatory environment, etc.
- **Inclusion of diversity**- LEADS distinctly ranks North-East, Himalayan States/UT(s) from the rest of India.
- This is followed by clustering of States based on their geographic proximity to analyse policy and investment decisions on logistics infrastructure.
- **Recommendations-** While ranking of States/UT(s), LEADS lays down recommendations to fare better in subsequent versions and reviews actions against suggestions in the previous report.
- The LEADS also enlists best practices for States/UT(s) to learn from.

References

1. https://www.thehindubusinessline.com/opinion/developing-an-efficient-logistics-ecosystem/article37992023.ece
2. https://commerce.gov.in/wp-content/uploads/2021/11/LEADS-2021-Report_Final.pdf

