

## Policies & Regulations Promoting Shipping & Logistics – Indian Overview 2017

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LOGISTICS is never a standalone independent activity. The visualisation of the probable situation in logistics in 2017 presents a complex scenario influenced by several external elements. The key influencers would be one, the world economy and trade, and two, Indian politics and governance.



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The latest WTO forecast is that the growth of world trade in 2017 would be 1.8-3.1% only; the figure for 2016 is 1.7%. The matter of concern is that the rate of growth of trade is lower than that of GDP – which implies that countries are becoming more inward-

looking. Globalisation and liberalisation were leading to global economic growth; the reversal would have severe adverse impact on all countries, especially the developing countries.

The global economic outlook does not look exciting, nor is it downright depressing; it would be logical to expect the 2016 situation to extend into 2017 as well. The year begins with a new President for the United States of America. Unfortunately, the election campaign depicted free trade as something dispensable and trade agreements as nuisances for the US economy. However, political slogans raised during electioneering are not fully actionable, and there seems to be no need to worry that the new President will immediately usher in protectionist policies. Another significant event of early 2017 will be the initiation of the Brexit process. Britain is an important trade partner for India; their separation from the European Union is bound to affect their economy adversely. Europe itself has reasons to be worried, not only about the slow economic growth of about 1.5% and about migration, but also about further withdrawals of countries from the Union. China has been experiencing lower growth rates in the range of 6-7%, but stimulus packages will help to strengthen the economy. Of India's other partners in BRICS, Russia and Brazil have been passing through stagnation, and South Africa does not have any inspiring presence in the world economic picture. The oil-rich Middle East countries have been severely hit by the fall in crude prices. Japan with the

latest GDP growth figure of 0.2% is not giving out any signals of faster growth.

The shipping industry has been experiencing severe bashing for the last few years. The recent collapse of Hanjin Shipping has come as a shock to the industry and to industry-watchers. In spite of strong liner alliances, the rates continue to be low. Drewry's annual reviews and forecasts do not project a rosy picture for 2017. Moore Stephens' Shipping Confidence Survey of August 2016 indicates a marginal increase in confidence on the part of ship managers, charterers and brokers. However, there is no immediate solution to the industry's biggest problem, namely, overcapacity. Operating costs do not come down; the Ballast Water Management Convention will come into force in September 2017, creating extra obligations for the shippers.

According to the projections of the World Bank and the IMF, India's growth rate will be above 7.5%, which is the highest among the bigger economies. It is a great achievement that the country is able to have stability and economic growth in spite of adversities all around. At the same time, it is a matter of concern that the manufacturing



sector contributes only about 16% of the GDP. Industrial production is an important factor in the trade in goods. In the current year, industrial output has contracted, both in manufacturing and in mining, as indicated by the fall in the Index of Industrial Production. The government has been working hard on the improvement of the ease of doing business, but the latest World Bank ranking places India at 130, just one notch above the last year's rank. The Make in India campaign is making its impact felt, but very slowly.

The biggest policy initiative that is planned for implementation in the next financial year is the introduction of the Goods and Services Tax to replace a large number of indirect taxes of the Central and state governments. It is undoubtedly a beneficial reform, but the initial euphoria seems to be lost. The 'One Nation, One Tax' is likely to end up with a dual GST + IGST + a cess, with at least half a dozen tax rates. Even with a defective GST system, the logistics sector stands to benefit substantially in terms of efficiency improvement, the essential condition being the abolition of inter-state check points. The state border checkposts cost heavily in terms of time and money and they are generally dens of corruption. The TCI-IIM Calcutta report on the operational efficiency of freight transportation by road has found that the cost of stoppage at checkposts has been increasing. Physical inspections must be based on risk assessment; hopefully, there would a robust technology platform for IGST where all essential data on the inter-state movement of goods is available. The model of warehousing could change; there could be consolidation in the service, with large regional warehouses functioning as hubs in a hub-and-spoke model. Large entities benefit from the economies of scale. While the logistics players have great expectations from GST, the facts remain that the rate of tax on services will go up from 14.5% to maybe 18%, with the benefit of input tax credit, and that the service tax payers will have to interact additionally with the state tax machinery.

The Central government's thrust on the development of the transport infrastructure is of immense benefit to the logistics activity in the country. The largest number of projects approved under the Sagarmala project in April 2016 is for port connectivity (83). The National Perspective Plan has also projects for port modernisation (53), port-led industrialisation (29) and coastal community development (8). The Railway Ministry has a proposal to set up a Railways of India Development Fund with an initial corpus of \$5 billion, with the World Bank as the anchor investor. The fund will help to mobilise private participation in remunerative projects, mostly catering to

freight movement. The reduction of rail freight charges by reducing cross-subsidisation is necessary but unlikely. The development of roads and highways has received greater budgetary allocation, and the overall pace of execution of projects has increased. In September 2016, the Central government had issued guidelines for the revival of the construction sector, with special attention on the settlement of disputes. The Roads Ministry has also a project for the development of Multimodal Logistics Parks at 15 identified locations at a cost of about ₹ 30,000 crore, about one-third of which would be for land acquisition. Another major development in the infrastructure sector is the enactment of the law on inland waterways, and the declared intention to promote cargo movement on these waterways. There will have to be adequate budgetary support for the development of these waterways as PPP or FDI may not get attracted immediately.

The Central government has reiterated its commitment to promote coastal shipping. There will be a combination of infrastructure development, tariff reduction and financial incentives to achieve the goal. There are tough barriers to the modal shift, including the need for multiple handling and the dependence on other modes for end-to-end delivery of the cargo. Only a closely monitored flexible incentive scheme would really help as the issues differ from cargo-to-cargo and from port-to-port. In the initial stages, the government and the industry have to work in tandem to promote movement of cargo through the coastal shipping route and through the inland waterways.

The Foreign Trade Policy 2015-2020 consolidated and/or modified several schemes and simplified the procedures for export. It is expected that the benefits of the policy would be fully available now. From the Finance Ministry, there have been several initiatives for making the Customs processes more efficient, secure and simple, both for import and export; paper work has been cut down considerably.

2017 would be another difficult year for the world economy. India has the potential to emerge as one of the few islands of growth, provided there is effective implementation of the vision and the programmes that have been repeatedly emphasized by Hon. Prime Minister Shri Narendra Modi. The logistics sector has a very crucial role and there has to be both concerted and individual efforts from the various Ministries in the Central government and the state governments to support the sector to become more efficient and economical, with seamless cargo movement at reduced transaction costs. ■