Transforming India’s logistics infrastructure

To get the most from massive investments, India must adopt a coordinated approach that aligns the development of each transport mode with the country's needs.

Rajat Gupta, Hemang Mehta, and Thomas Netzer
Logistics infrastructure is a critical enabler of India’s agenda for economic development and urbanization. Recognizing its pivotal role, the Indian government will have tripled annual spending on logistics infrastructure over the past seven years, from about $10 billion in 2003 to $30 billion in 2010. Despite this increase, the country’s network of roads, rail, and waterways will be insufficient to accommodate a threefold increase in freight movement over the coming decade. This shortfall in logistics infrastructure will put India’s growth at risk, concludes a new McKinsey report, *Building India: Transforming the nation's logistics infrastructure*.

Since a large part of the logistics network that India needs has yet to be built, the country has a chance to add infrastructure optimally to meet the growing demand. The report finds that to achieve this goal, India must pursue an integrated and coordinated approach that not only closely aligns the development of each mode—railways, roads, and waterways—with the country’s needs but also makes better use of existing assets. This will require increasing the railways’ share of logistics infrastructure investments from about 40 percent currently to 50 percent. Building a logistics infrastructure capable of handling rising freight traffic more efficiently presents opportunities for user industries and for infrastructure developers and construction companies, among others, the report finds.

In particular, India must expand its use of rail and realize the potential of its waterways. Given current trends, the share of India’s freight transported by rail would decline to 25 percent, from the current 36 percent. By contrast, rail accounts for almost 50 percent of freight movement in China and the United States. The report suggests an approach where India could increase rail’s share of its freight to 46 percent by 2020 (exhibit).

India should increase the use of rail for freight to ensure a much more balanced and economical mix of transportation modes.

[Exhibit: Graph showing current and projected modal mix of transportation in India.]
If current trends prevail, inefficiencies associated with poor logistics infrastructure will increase from $45 billion today to $140 billion in 2020. However, a well-planned infrastructure program could help India cut this waste by half and transportation fuel requirements by 15 to 20 percent.

Read an executive summary or download the full report outlining India’s logistics infrastructure challenge at the McKinsey & Company Web site.

Rajat Gupta and Thomas Netzer are directors in McKinsey’s Mumbai office, where Hemang Mehta is a consultant. Copyright © 2010 McKinsey & Company. All rights reserved.