

## **Lecture 15. The importance of international logistics in the country's economy.**

**The goal of lecture:** to consider importance of international logistics in the country's economy

### **The main objectives of the lecture:**

1. Logistics connection with the world
2. Logistics in international trade operations
3. Logistics services for the whole world

### **1. Logistics connection with the world**

Logistics play a crucial role in today's economy. Improved trade logistics infrastructure such as roads & highways, ports, railways, airports including dry ports, warehousing infrastructure and labs & testing facilities are necessary for sustainable and balanced economic development of all parts of the country. Logistics is the management of transporting goods from the point of origin to the point of consumption in order to meet customer's requirements. In short, logistics is all about transporting the right product, to the right customer, in the right condition & quantity and at the right place, at the right time and at the right cost.

The success of any business or economy of the country in global markets is also depending on the importance of trade logistics solutions. Let's discuss 7 contemporary trends that can be identified regarding the importance of logistics in global industry.

The demand of any product is improved significantly from increased mobility, unobstructed movement of products & services and access to better logistics infrastructure. This is because enhanced trade and logistics infrastructure create place, time and form utilities for the customers & users. Both customers and users can be serviced at any time and at any place. Thus, improved international logistics infrastructure helps in increasing the overall sales of the company's products.

Improved logistical infrastructure helps in keeping cost of business at the lower side as transportation of products from one place to another becomes almost uninterrupted due to better ports, railway network, roads and civil aviation infrastructure.

For example, Due to better road connectivity in China, a truck can travel 1,300 km into this country in about 74 hours. And the same distance, which is equivalent to distance between Delhi-Kolkata, is covered in about 144 hours in India. This delay not only extends trade cycle, but the quality of certain goods get poor and fetches lower prices in markets.

Improved global logistics services from top logistics companies and better transportation are important for the movement of goods and services from one region to another. This helps companies to have a tap on the customers in every nook and corner of the world.

For example, Indian industry has many potential fields such as electronics, engineering, chip designing, auto components, etc. It can contribute to the world's

markets only if the country has improved trade logistics infrastructure and networking systems; otherwise the business opportunities can be outpaced by the nation's rivals from other developed countries.

Hence, any country needs to have quality logistics infrastructure to tap clients all over the world.

In the development process of any country, growth in the economy plays a vital role. This is possible from the expansion in trade & logistics infrastructure that create demand in economic system for products such as iron & steel, cement and manpower.

For example, India has to make its logistical infrastructure better, which will not only grow its economy but also help its companies to accomplish a sustained superior performance in international markets through enhanced trade supply chain process.

How to bridge gaps between demand and supply of a product? This is one of the major challenges that any company faces in international markets at all levels from sourcing of raw materials to work in progress to distribution to customers. So, better transporting goods from one place to another and timely supply of products to meet the demand will fill the gap between demand and supply of a product.

For example, China with main economic clusters on the east coast results to transporting commodities at far-away regions in the western and remote northern parts of the country. This creates the problem of demand and supply in the country's economic system. Better connectivity from road, rail network, airstrips and sea helps companies to distribute their resources between places where there are abundant resources and where there are scarce.

Trade logistic infrastructure and transportation play an important role in conditions that affect regional, national and international economic entities of companies in accessing global markets.

For example, Nepali carpet exporters transport their goods towards the Nepal border by trucks that are unloaded for customs clearance at Birgunj in India. The products are again loaded on Indian trucks to move towards Kolkata by road transport. The shipment is then unloaded again for loading on ship and transhipped to Singapore.

## **2. Logistics in international trade operations**

An efficient logistics system in international trade operations helps companies in making timely supply of products to their international buyers. Due to complex functionality of logistic system and long distance involved between two countries, the problem of safety, care and timing of shipment often cause nightmares to suppliers, particularly in case of perishable & high value products and goods with expiry date restrictions. Such products include newspapers, flowers and marine products.

As a significant component, logistics affects the rate of inflation, interest, productivity, energy costs and availability, and other aspects of the economy. Improvements in a nation's productivity have positive effects on the prices paid for goods and services, the balance of national payments, currency valuation, the ability

to compete effectively in global markets, industry profits (higher productivity implies lower costs of operation to produce and distribute an equivalent amount of product), the availability of investment capital, and economic growth leading to a higher level of employment. Perhaps the best way to illustrate the role of logistics in economy is to compare logistical expenditures with other shared activities. The amount spent on logistics is higher than what have been spent on advertising, twice that spent on national defense and equal to that spent on medical care.

Logistics also supports the movement and flow of many economic transactions; it is an important activity in facilitating the sale of virtually all goods and services. To understand this role from a systems perspective, consider that if goods do not arrive on time, customers cannot buy them. If goods do not arrive in the proper place, or in the proper condition, no sale can be made and thus all economic activity throughout the supply chain will suffer.

Although, logistics contribution to the national output in a country may not be as competitive as other sectors, the role that logistics plays in supporting the activities within an economy cannot be undermined or overlooked. One well-known connection between transport and logistics and national development is the facilitation of international trade, which, under appropriate circumstances, delivers several other beneficial economic and social outcomes (OECD/WTO, 2013). The transport and logistic sector is an integral part in terms of facilitating international trade as it allows firms to effectively complete imports and exports of goods and services and associated transactions.

### **3. Logistics services for the whole world**

The continuing rise of world trade and the desire by many countries to speed up the pace of integration within the global trading system will depend not only on maintaining an open global economic system but improving the quantity and efficiency of the support structures such as the logistics services. Poor logistics services such as limited co-ordination among countries on border procedures; inefficiency of customs clearance process at the ports; fragmented and poor quality of transportation related infrastructure; costly and infrequent shipping (with long and indirect shipping routes); delays in tracking and tracing consignments; delays in terminal handling and clearance of goods; absence of cool storage facilities at ports; and the inability to certify product quality; amongst others; can cause significant hindrance to international trade.

Despite logistics integral role in supporting commercial activities, there is generally a low level of analysis as well as trade policy research focus from an applied economics perspective. Available literature points to the fact that there is little detailed empirical work on the effects of logistics on trade performance. One likely cause of this deficiency is the absence of numerical measures capturing logistics performance on a consistent and timely basis with large country coverage and sector specificity (Shepherd, 2011). While trade researchers have provided some qualitative assessment of the developments in logistics services at country level, an empirical investigation of the impact of logistics on trade could also provide an additional useful guide to trade policy makers as well as logistics operators.

Logistics in the commercial business context and in particular, trade logistics, include the range of services and processes that are involved in moving goods safely and securely from one country to another. Goods crossing national borders go through a range of processes that include, but are not limited to, satisfying customs and administrative procedures; effective organization and management of international shipment operations; timely tracking and tracing of shipments; and ensuring high quality of transport and information technology infrastructures.

Logistics industry provides significant macro contributions to national economy by creating employment, and creating national income and foreign investment influx.

### **Questions for self-control:**

1. What is Logistics connection with the world
2. What is Logistics in international trade operations
3. Tell about Logistics services for the whole world
4. What new introduction would you like to add to the logistics field?

### **Literature:**

1. Gadzhinsky, A.M. Logistics: a textbook for higher educational institutions in the field of training "Economics" / A.M. Gadzhinsky. - M.: Dashkov and Co., 2013. - 420 p.
2. Kiladze, A. B. Logistics in customs. Textbook / A. B. Kiladze. - M.: Prospekt, 2016. - 144 p.
3. Kiladze A. B. Theory and practice of customs: history, problems, prospects. Moscow; Yaroslavl: IPK Litera, 2012. 80 p.
4. Parfenov, A. V. Innovations and infrastructure restrictions in customs logistics. Strategies for the development of commercial tools. SPb: SPbGUEF, 2010, 215 p.

### **Internet resources:**

1. Makhovikova G. A. Customs business: a textbook for bachelors/ G. A. Makhovikova, E. E. Pavlova-2nd ed. and additional M.: Uwrite Publishing House, 2016. URL: <http://www.biblioonline.ru/>
2. Gokinaeva, I. A. Fundamentals of customs affairs. Part 1. Customs procedures: a textbook / I. A. Gokinaeva. - St. Petersburg : ITMO University, 2015. URL: <http://www.iprbookshop.ru/67502.html>
1. 3. Gokinaeva, I. A. Fundamentals of customs affairs. Part 2. Customs operations : a textbook / I. A. Gokinaeva. - St. Petersburg : ITMO University, 2016. - 84 p. URL: <http://www.iprbookshop.ru/67503.html>
2. 4. 1. Grinenko, G. P. Fundamentals of customs: a textbook / Belgorod: Belgorod State Technological University named after V. G. Shukhov, EBS DIA, 2016 - 124 p. URL: <http://www.iprbookshop.ru/80433.html>
5. "Customs Code of the Eurasian Economic Union" (as amended on 29.05.2019) (appendix No. 1 to the Agreement on the Customs Code of the Eurasian Economic Union). Available at: [https://online.zakon.kz/Document/?doc\\_id=36041210](https://online.zakon.kz/Document/?doc_id=36041210)

