India’s supply chain opportunity

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What’s in Today’s Article?

Why in News?

- However, the announcement at the G20 Leaders’ Summit on the landmark India-Middle East-Europe Economic Corridor (IMEC) has the potential to make India an Asian hub in global supply chains.

- This is significant amid the efforts to cut dependence on China-centric global supply chains.

What are Supply Chains?

- **A supply chain includes** every step (beginning with the producers of the raw materials) that is involved in getting a finished product or service to the customer.
- It refers to the **geographical location of stages of production** (design, production, assembly, marketing, service activities) **in a cost-effective manner**.
- **Global supply chains** have been the leading model of industrial production since the 1980s, **influencing the pace and nature of globalisation and regionalisation**.
- Global supply chains **can be found in a wide range of simple** (textiles and clothing, food processing and consumer goods, etc.) and **complex industries** (e.g., automotives, aircraft, machinery, electronics and pharmaceuticals).

Why are Global Supply Chains Moving from China?

- Today, **China is a major actor in global value chains**, accounting for nearly **20% of global manufacturing trade** and an even greater share of many intermediate global value chain inputs that are essential for production.
- However, even before the Covid-19 pandemic, **Western firms had begun to reduce their reliance on China** and its popularity as a sourcing market among Western buyers was diminishing.
- The trend was attributable in part to **rising wages and supply chain bottlenecks within Chin**a, and investor concerns about **tighter regulation of foreign firms**.
- Also, the **country's trade war** with the US is forcing multinational companies to rethink their global sourcing strategies.
- **Some production stages in Chinese supply chains**, particularly the labour-intensive ones, **were moving to lower-cost locations**.
- However, **what makes it difficult to relocate all production from China** is that it is costly to shift supply chains because new plants need to be set up, and workers need to be hired and trained, etc.

Why are India and Southeast Asia Viewed as Attractive Supply Chain Hubs?

- Southeast Asia has attracted foreign companies with **cheap wages, fiscal incentives and improved logistics**.
    - **Vietnam and Thailand** are big winners in supply-chain shifting.

- But over time, **India** can become **a complementary Asian manufacturing hub to China** by reaping gains from foreign technology transfers and creating value-adding jobs. This is seen in the –
    - Ramped-up manufacturing of **iPhones** in the country,
    - **Early technology transfer** in the product cycle of the technologically advanced Mercedes Benz EQS to India, and
    - Foxconn Technology Group developing **a chip-making fabrication plant in Gujarat**.
- **Manufacturing sectors in India** such as automotives, pharmaceuticals, and electronics assembly are already sophisticated, and likely to emerge as winners in this race.
- India's attractiveness to foreign investors is also linked to **geopolitical and economic factors**.
- **Indian service** can also be a winner, including in ICT, back-office work, financial and professional services, and transport and logistics.

Steps Taken by India to Ramp-up its Supply Chain Network:

- Since 2022, the Indian government's trade policy has placed **renewed emphasis on preferential trade** through a number of bilateral deals with trading partners.
- **The UAE-India Comprehensive Economic Partnership Agreement** entered into force in May 2022.
- Talks are ongoing to conclude the full **Australia-India free trade agreement (FTA)** by the end of 2023. **Negotiations for a UK-India and EU-India FTA are in process.**
- **The Indian PM's visit to Washington DC** (in June 2023) showed that supply chains are at the centre of the latest chapter in India-United States relations.
- These new deals with Western trading partners reflect plans for deep economic integration **going well beyond India's previous FTAs which focused solely on the goods trade and related measures.**

Way Forward for India – Learn from China's Experience:

- The promotion of **export-oriented foreign direct investment (FDI)** is key to participating in supply chains.
- **Local companies need smart business strategies** to join global supply chains.
    - **Conglomerates can cross-subsidise investments** and other costs among business units.
    - Small and mid-sized enterprises should work as **industrial suppliers and subcontractors to large exporters.**
- **Business strategies like mergers, acquisitions, and alliances** with multinationals and large local business houses are rational approaches.
- **Investment in domestic technological capabilities** to achieve international standards of price, quality, and delivery.
- **Better targeting of multinationals in new industrial activities** in which there may be a potential comparative advantage and better coordination between the central and state governments.
- **Upstream investment in tertiary-level education** in science, technology, engineering, and mathematics.

- **Caution should be exercised before India attempts to replicate China's** state interventionist template, as there is a significant risk of government failure.
  - It may be prudent to actively **engage with think tanks to gain insights into what might work.**

Conclusion:

- **India has a historic opportunity to promote industrialisation in South Asia**, which would stabilise the region, increase jobs, and make it less vulnerable to Chinese enticements.
- The Indian government **should consider following policy initiatives to promote regional supply chains** –
  - Upscaling the Make in India Programme into a **Make in South Asia Programme,**
  - Concluding a comprehensive bilateral FTA with Bangladesh, and
  - Upgrading the Indo-Sri Lanka FTA to support regional rules-based trade and investment.
- Unless India creates channels for South Asia, it has no offer for the **Global South.** The fresh supply chains opening up with the US are good for India to start its global integration journey, **Neighbourhood First**.

Q1) What is the UAE-India Comprehensive Economic Partnership Agreement (CEPA)?

The CEPA aims to reduce and eventually eliminate up to 10,000 tariffs between the economies, propelling bilateral trade to newer heights. The UAE's Centennial Plan runs concurrently with India's Vision 2047, which has set ambitious national imperatives, ensuring prosperity and development for all its people.

Q2) What is India's 'Neighbourbood first' policy?

A core component of India's foreign policy, the concept of the Neighbourhood First Policy came into being in 2008. It was conceived to bolster relations with its South Asian neighbours.

Source: India's supply chain opportunity